PRU$HKA
FAST DEBT RECOVERY
NO RECOVERY - NO CHARGE

OCTOBER 2017

Canary IN THE Coal Mine REPORT

BACKGROUND

With more than two million small and medium sized businesses operating in Australia, contributions from SMEs make up more than half of the country's 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 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, operating for close to 55,000 businesses – predominantly SMEs – from all states and territories and representing all industries. 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 41 years and its clients are located right across Australia and cover all business segments.

ABOUT THE SURVEY

The Canary in the Coal Mine report has been created from 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 has been run since 2006 and 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. There were 574 respondents.

Executive summary

THE FINDINGS IN A NUTSHELL

Prushka's latest 'Canary in the Coal Mine' survey findings indicate a positive outlook for Australian businesses, contrasting current perceptions of economic conditions.

Business confidence remains high and most operators indicate they are aiming for growth over the next 12 months.

Despite this confidence, debt recovery remains a persistent issue for businesses with debt levels continuing to creep higher largely driven by the accumulation of smaller debts that aren't being recovered. Operators indicate it is getting harder to recover debts, and are spending considerable time on debt recovery.

Contrasting the positive business conditions, households are experiencing increasing financial burden and finding it harder to repay their debts. Continuing cost-of-living pressures and other hardships are significantly impacting consumers.

Power price increases, combined with low wages growth, is impacting household budgets but we haven't experienced this as an issue at this stage. The likely impact will be on other bills from SMEs as householders will pay energy costs before paying their vet, dentist, etc.

"Continuing cost-of-living pressures and other hardships are significantly impacting consumers"

Key findings

SURPRISING LEVELS OF PREDICTED GROWTH AS BUSINESS CONFIDENCE REMAINS STRONG

Respondents remain focused on growth with more than 50 per cent of businesses indicating some sort of growth is expected in 2017/18. This remains steady from last survey's figures, a now stable prediction of growth over 12 months.

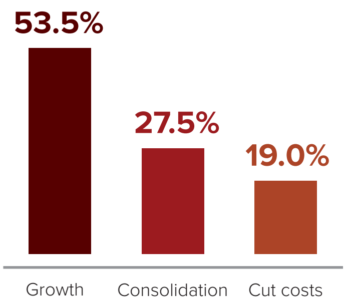
Business confidence also endures with two thirds of respondents (66 per cent) citing they are confident with their current business condition, up from 45 per cent 12 months ago. Business confidence is likely to influence the outlook for the coming year, with respondents most concerned about growing their customer base (43 per cent).

SMEs continue to show signs of business health with only 22 per cent needing to rely on banks if cash flow problems arise, a further 45 per cent have a cash buffer in place for tough times while 23 per cent use their own personal funds to cover any shortage when and if problems arise.

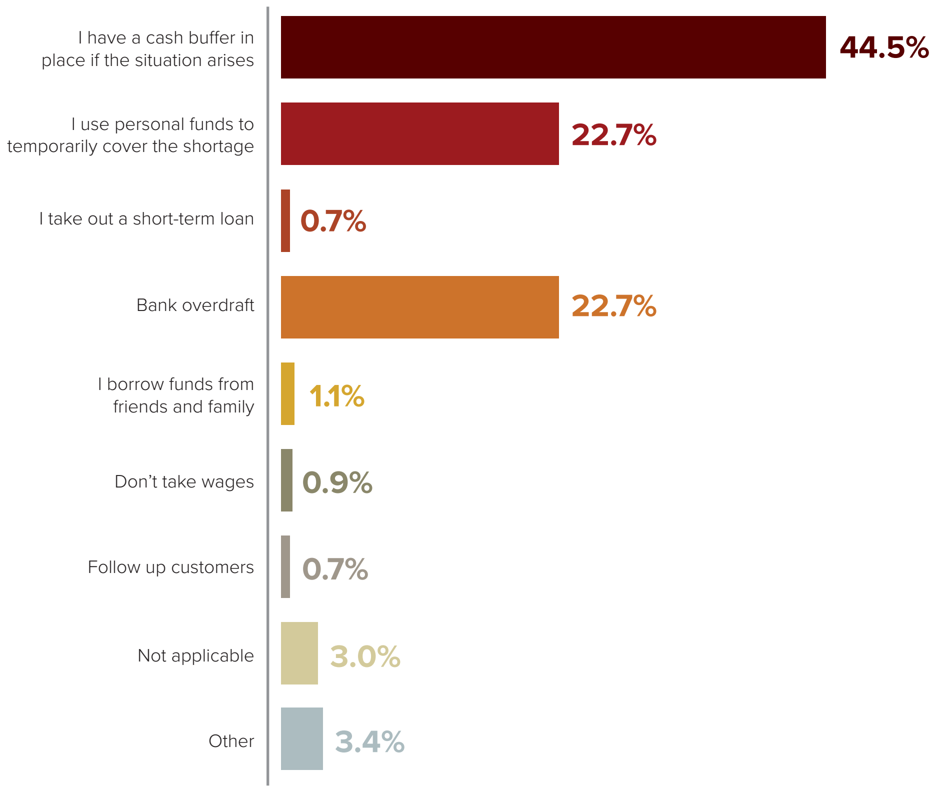
"This level of confidence is surprising in the current economic climate. For growth to remain strong over 12 months is a great sign for the future. The fact that only 23 per cent turn to banks shows just how far banks have vacated the SME market, and how self-reliant SMEs have become"

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?



SMES CONTINUE TO IGNORE SMALL DEBTORS

Debts continue to remain an issue with a quarter of respondents citing an increase in outstanding debt in the last 12 months, while 54 per cent reported debt levels have stayed the same.

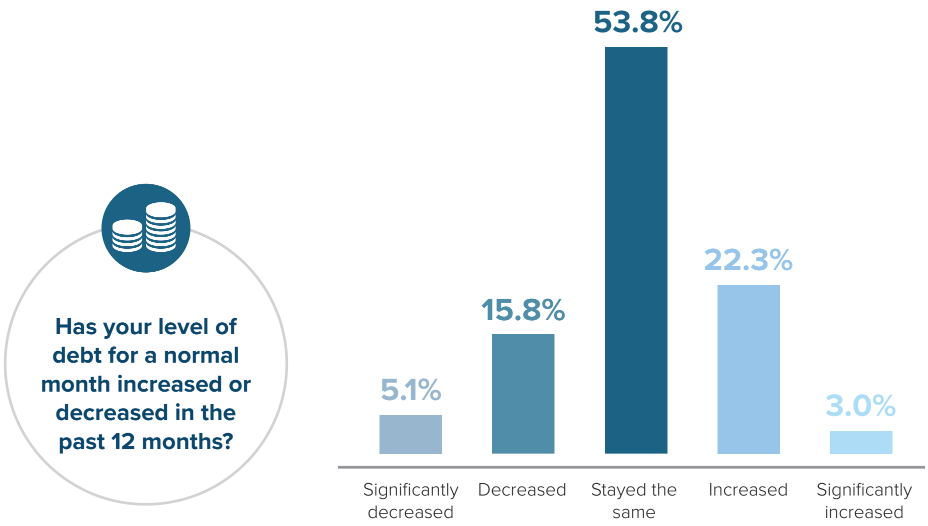
Half of respondents have over $10,000 of outstanding debt in a normal month, a sign SMEs are struggling to get on top of their debts as more respondents have increased their debt level than decreased in the past 12 months.

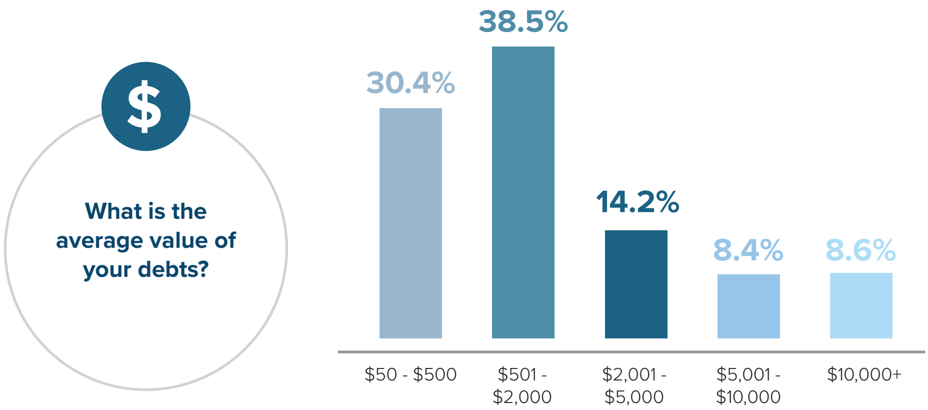
The average value of debts is low with 69 per cent of respondents their debts are valued at less than $2,000 - an increase from six months ago, indicating a failure of small businesses to recognise the significant impact of small debts on cash flow and business survival.

SMEs willingness to grant credit remained largely the same (58 per cent), while 35 per cent of SMEs said their willingness has decreased.

"The high percentage of respondent with debts under $2,000 is no shock. An increase in small debts should act as a warning to business owners that smaller debts eventually add up, and must be followed up, not forgotten."

Roger Mendelson, CEO of Prushka





DEBT RECOVERY TAKING LONGER

Almost half (45 per cent) of business operators are spending more than five hours on average per month on debt collection, and are finding it more difficult with 39 per cent reporting debt collection has become harder over the past 12 months, while 55 per cent say it has remained the same.

Businesses are waiting months before referring debts to a collection agency, with 63 per cent of businesses waiting 90 days or more, or until a debt is disputed. This remains unchanged compared to six months ago.

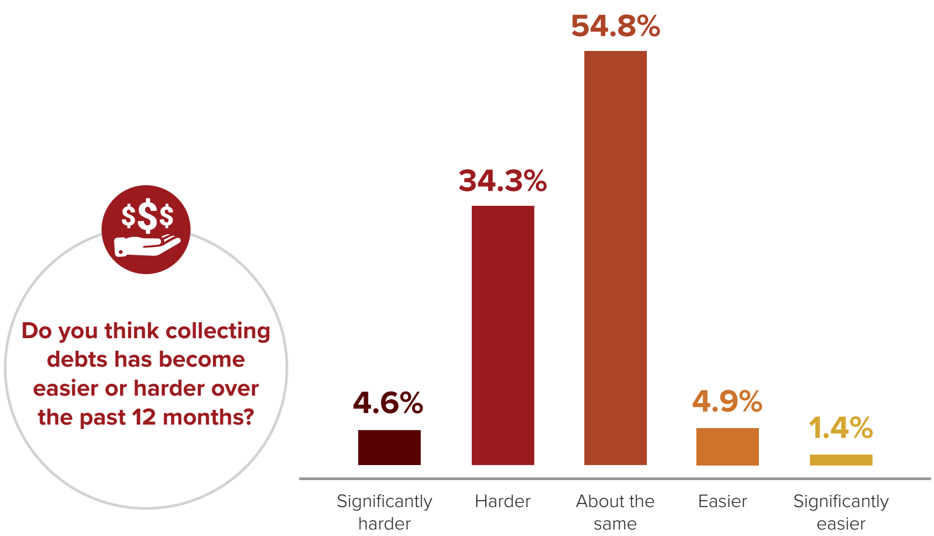
When asked what the major reason their B2B customers provided for non-payment of their account, 41 per cent of business operators said they 'made excuses', while 29 per cent said debtors cited cash flow problems.

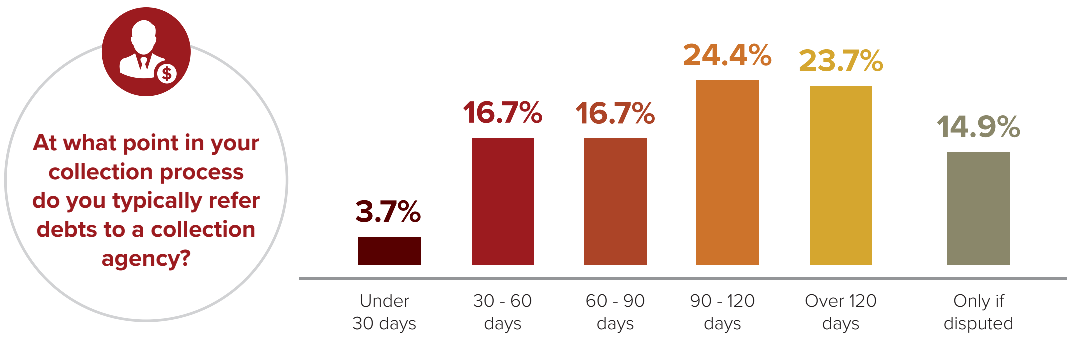
"From a management point of view, when a debtor starts making up excuses for why they can't repay their debts, it should be a clear signal they don't have any plans to pay you and it is time to refer it to a debt collection agency.'

Roger Mendelson, CEO of Prushka

"Over 90 days is too long to wait to take action and over 120 days is far too long. The older a debt is the more likely it is to become a bad debt."

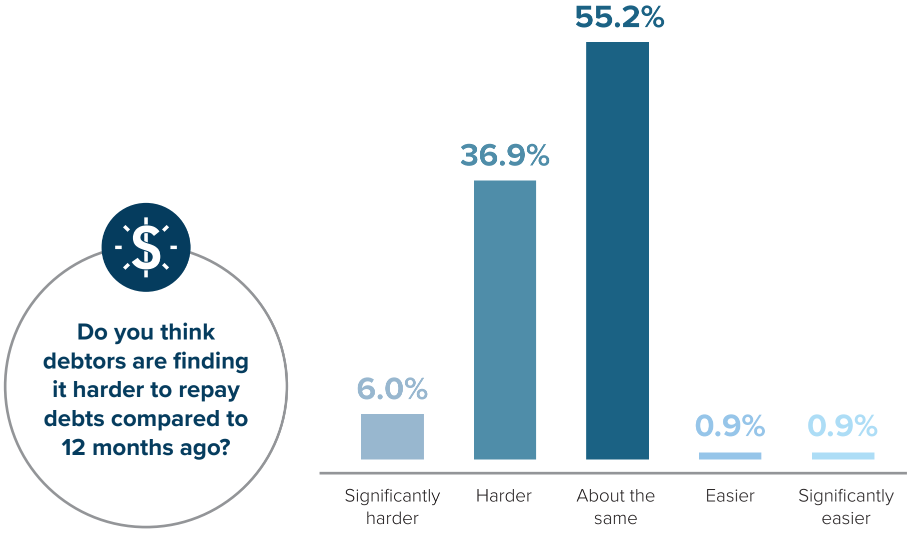
Roger Mendelson, CEO of Prushka





HOUSEHOLDS STRUGGLING IN THE "PERFECT DEBT STORM"

Forty-three per cent of business operators think debtors are finding it harder to repay debts than 12 months ago, while 55 per cent feel this has remained the same. One-third cited 'general hardship' as the main reason debtors said they couldn't repay their debts, indicating despite business confidence, households are doing it tough and are struggling to cover everyday expenses. A further 18 per cent said increased household bills and living costs was impacting their ability to pay, and 16 per cent pointed to the state of the economy.

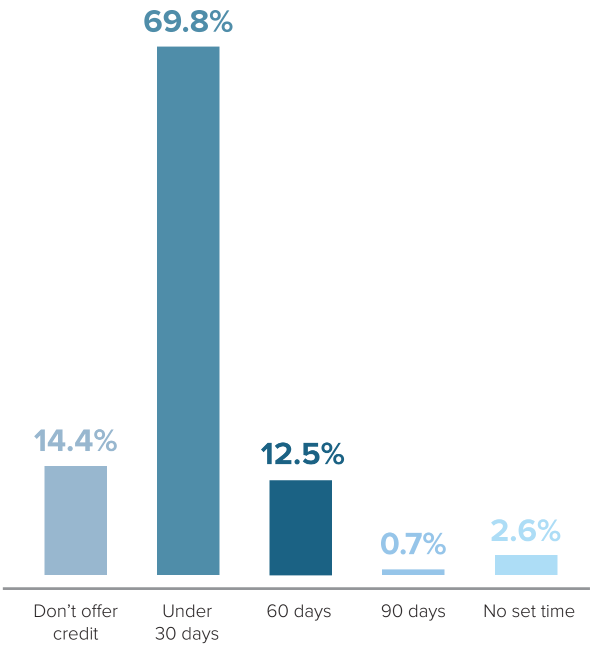


CONTINUED PAYMENTS TERMS HEADACHES

Following the Business Council of Australia's introduction of voluntary 30-day payment code for small businesses, 70 per cent of businesses are operating with terms requiring payment within 30 days.

Despite the new industry-standard for trading terms, 46 per cent of respondents on average have more than 10 outstanding invoices per month, with 46 per cent of businesses needing to chase invoices more than twice before they are paid. Two-thirds of respondents say the number of times invoices require following up has remained the same over the past 12 months.

What are your current payment terms?



How many times do you typically have to ask for payment before an invoice is resolved?