With more than two million small and medium sized businesses operating in Australia, SMEs make up a large portion 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.

Prushka Fast Debt Recovery is one of Australia’s largest debt recovery agencies, operating for more than 53,000 business - predominantly SMEs. Working closely with a large and diverse SME client base gives Prushka a unique understanding of current business trends and issues that are facing owners. Prushka has been in operation for 40 years and its clients are located right across Australia and cover all business segments.

The Canary in the Coal Mine report has been created from a survey of 614 Prushka clients from around the country and across more than 30 industries including building and construction, medical and dental, and retail. The survey looked 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.
Key findings

SME CONFIDENCE SHAKY

One in three businesses are currently worried about their current situation with the biggest concerns being profitability (according to 61.7 per cent of SMEs), growing customer base (50.9 per cent) and unpaid debts (28.9 per cent). SME owners cited the biggest challenges impacting their business were the state of the economy (53.2 per cent), consumer spending (40.0 per cent) and pressure on margins (39.1 per cent).

Significantly, 54 per cent of SMEs are focusing on either consolidation or cost cutting this year, further emphasising the sector’s wariness.

Business owners’ concerns for growing their customer base reflects the high level of competition in the SME sector currently. Further, the fact that the state of the economy, consumer spending and pressure on margins ranked so highly indicates small business’ level of negativity and SMEs are operating very cautiously as a result, limiting their focus on growth which has a flow-on effect to the wider economy.

– Roger Mendelson, CEO of Prushka
CASH FLOW STILL A CONCERN

More than half of SMEs have the same level of debt as this time last year and 61.6 per cent feel they are spending the same amount of time chasing unpaid accounts. SMEs are also stagnant when it comes to granting credit, with 56.4 per cent saying their willingness to grant credit to customers has remained unchanged, and a further 37 per cent have less inclination to exempt credit.

SMEs are operating a tight ship when it comes to cash flow. Businesses today are more focused on their cash flow and more active in controlling it than they would have been five years ago.

Granting credit is a great way to win new customers, however SMEs are more prepared to lose potential business than increase their risk.

— Roger Mendelson, CEO of Prushka

Almost 61 per cent of SMEs have more than $10,000 in outstanding debt, yet the average value of debts for 67 per cent of respondents was under $2,000. This indicates larger debts are typically paid or recovered quickly, while smaller debts are ignored or forgotten. Compounding this issue, 55.1 per cent of SMEs hold onto debts for longer than 90 days before referring them to a collection agency.

Recovery processes are critical to maintaining a healthy cash flow but without a stringent system in place, businesses can be left exposed to bad-paying customers. While smaller debts may seem insignificant, they can quickly add up. Ignoring just five $200 debts means you are giving away $1000 for free; don’t let that happen.

You should look to outsource your debts no later than 60 days to ensure they don’t become bad debts. As the economy tightens, businesses will need to greatly compress their internal collection processes so the time between work and payment is reduced.

— Roger Mendelson, CEO of Prushka

BUSINESS PROCESSES ARE NOT STRINGENT ENOUGH

Canary In The Coalmine Report JUNE 2016

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

<table>
<thead>
<tr>
<th>Has your willingness to extend credit changed over the past 12 months?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significantly decreased</td>
</tr>
<tr>
<td>9.1%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>At what point in your collection process do you refer debts to a collection agency?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 30 days</td>
</tr>
<tr>
<td>30 - 60 days</td>
</tr>
<tr>
<td>60 - 90 days</td>
</tr>
<tr>
<td>90 - 120 days</td>
</tr>
<tr>
<td>Over 120 days</td>
</tr>
<tr>
<td>Only if disputed</td>
</tr>
</tbody>
</table>

Recovery processes are critical to maintaining a healthy cash flow but without a stringent system in place, businesses can be left exposed to bad-paying customers. While smaller debts may seem insignificant, they can quickly add up. Ignoring just five $200 debts means you are giving away $1000 for free; don’t let that happen.

You should look to outsource your debts no later than 60 days to ensure they don’t become bad debts. As the economy tightens, businesses will need to greatly compress their internal collection processes so the time between work and payment is reduced.

— Roger Mendelson, CEO of Prushka
CONSUMERS FEELING THE PINCH

Almost half of businesses feel consumers are finding it harder to repay debts than 12 months ago, and 42.3 per cent say collecting debts has become harder, indicating consumers are stretched to the max and have little capacity to withstand a significant tightening of the economy.

Despite unemployment, interest rates and inflation all being low, consumers are feeling the pinch, meaning the capacity for people to withstand the inevitable pressure from increased interest rates and higher unemployment is a major concern for the future.

Many consumers are currently living well beyond their means, leaving them overexposed should a recession, or any economic change, hit.

– Roger Mendelson, CEO of Prushka

CONCLUSION

SMEs are already moving into consolidation mode and limiting their spending. With concern and scepticism surrounding consumers, a tightening of business purses could impact the broader economy drastically. Householders have been spending beyond their means for a time because of the continued strength of the economy and relative stability of household bills, leaving them exposed to any strong changes.

Business confidence appears to be at a tipping point and concerns about the state of the economy, consumer spending and pressure on margins indicate a growing level of negativity developing within the SME sector.

With many economic experts warning of a looming recession, it’s important that business owners and consumers alike take the necessary steps now to prepare themselves should we be hit with a downturn. Business owners must implement stringent processes for collecting debts and consumers should be looking at reducing their spending on unnecessary items.

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