PRU$HKA
FAST DEBT RECOVERY
NO RECOVERY - NO CHARGE

MARCH 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

The latest Prushka 'Canary in the Coal Mine' survey findings reveal a mixed business and economic outlook from both SMEs and households.

While on the one hand the general strength and stability of the overall economy has led to an upswing in growth plans and business confidence among SMEs, there is an undercurrent of uncertainty about the future fuelled, at least in part, by persistent concerns relating to profitability and low margins brought about by increased competition.

These findings are a clear call for SMEs to address competition and safeguard themselves against downturns, including by tightening business processes and focusing on reducing outstanding debt as and when it happens.

For households, again despite longstanding positive economic indicators, there are signs that many are continuing to live beyond their means. From a public policy point of view, we believe the RBA needs to send out further warnings to households to reduce spending and increase financial reserves.

"there are signs that many are continuing to live beyond their means"

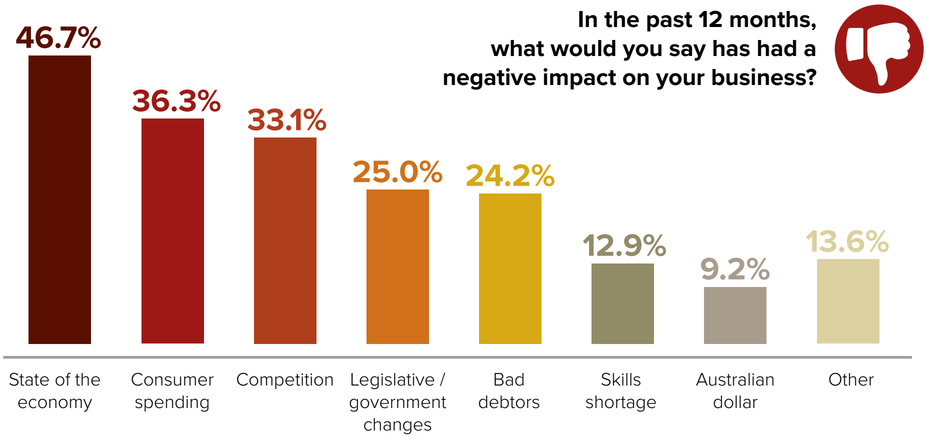
Key findings

THE UNEXPECTED DOWNSIDE OF A STRONG ECONOMY:

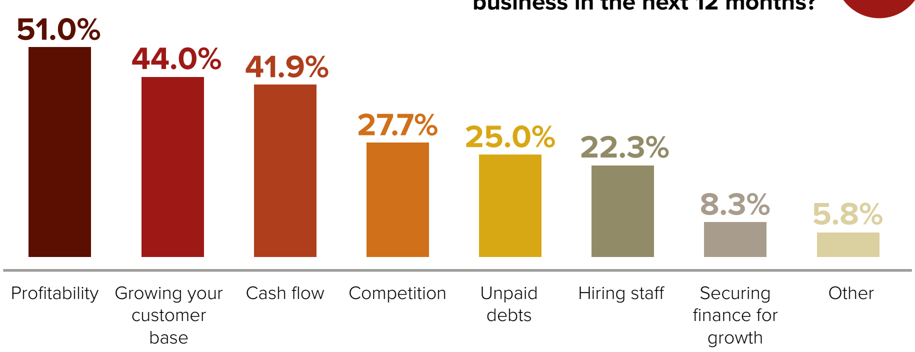
more competition, margin squeeze, profitability concerns

Despite very low inflation, low wages growth, low interest rates, low unemployment, a substantially improving export figure and stable government, **nearly half (47 per cent) of respondents believe that the state of the economy has had a negative impact on their business.** Key reasons for concern are profitability (51 per cent); cashflow (42 per cent); and increased competition (33 per cent). This is largely due, not to lack of orders, but lack of profit margin due to competition.

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?



"The major issue facing Australian SMEs is increased competition. The generally positive economic environment means even weaker businesses have survived while technology has boosted productivity and allowed access to larger markets. This has increased the number of players in most sectors, while at the same time reducing operating costs, enabling them to reduce prices to win business.

"By way of response, the smarter operators in the B2B sector are extending payment terms to their customers, particularly larger companies with market power. This is, however, causing a squeeze down the line to smaller suppliers, who are in turn forced to squeeze their own suppliers."

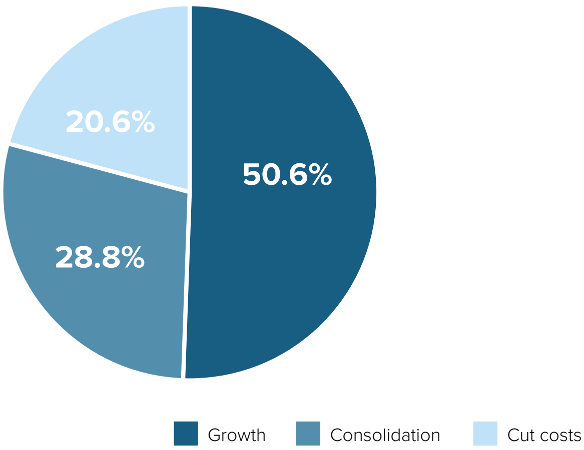
Roger Mendelson,
CEO of Prushka

BOOSTED BUSINESS CONFIDENCE

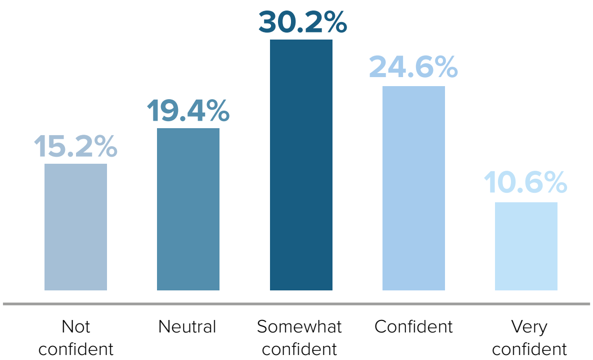
leads to more plans for SME growth

Despite some concerns, there's been an upswing in overall mood and outlook. More than 50 per cent of businesses indicate that their focus in 2017 will be growth, up from 46 per cent in the previous survey. These plans are likely buoyed by business confidence, also significantly up, with 65 per cent of respondents reporting a degree of business confidence compared with 45 per cent six months ago.

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



How would you rate your business confidence right now?



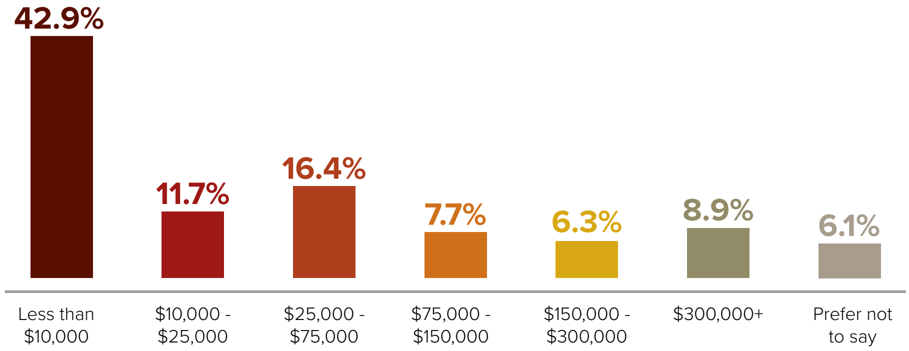
OUTSTANDING DEBT LEVELS

remain persistent and unimproved

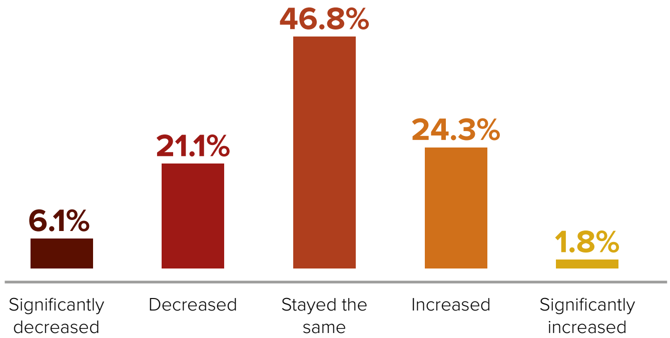
SMEs continue to struggle with taking control of outstanding debt with 46 per cent of respondents reporting that debt levels had stayed the same, 24.3 per cent said they had increased and 1.8 per cent said they had significantly increased.

While around 63 per cent of respondents have averaging debts valuing less than $2,000 it is clear that those debts add up: 57 per cent have more than $10,000 outstanding. For smaller businesses debts of that size can have a significant effect, especially on cashflow.

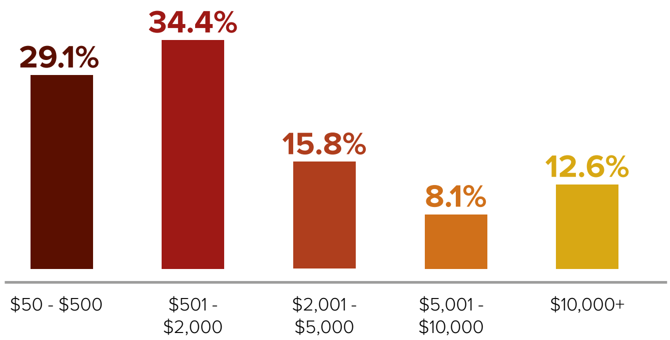
How much debt do you currently have outstanding?



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



What is the average value of your debts?



DEBT RECOVERY IS TAKING LONGER AND GETTING HARDER –

so businesses should act sooner and smarter

Just over a quarter of respondents reported that time spent on debt collection had increased since the last survey. At the same time, **41 per cent said collecting debts is getting harder.**

Businesses are also waiting months before referring debts to a collection agency: 63 per cent of businesses wait for 90 days or more, or until a debt is disputed.

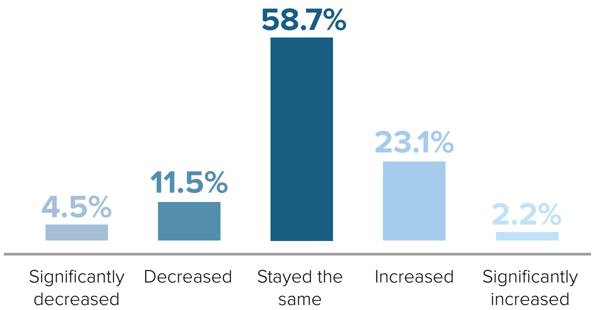
"It's disturbing to note that despite debt collection taking longer and getting harder, overall debt levels are remaining unchanged or slightly on the rise. This has trend ramifications because the current underlying economic situation is sound. If debt collection is becoming more difficult and the economic situation then worsens, there may be a significant spike in outstanding debts.

"In our experience, there are clear steps that businesses can take to shift these intransigent debt levels. One is to pursue debts sooner. We see a clear correlation between the age of debt being referred and the chances of it becoming a bad debt. In reality, debtors who haven't paid at 80 days are unlikely to pay at 90 or 100 days.

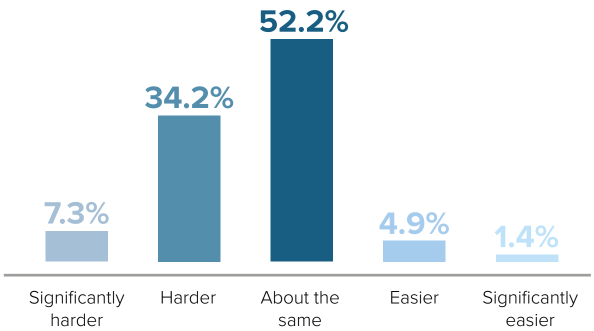
"The other step is to make sure businesses use the time they spend on debt recovery wisely. While technology can be a time saver, making personal follow-up calls to debtors with outstanding accounts – time consuming as it is – can significantly improve the percentage of invoices kept within acceptable limits."

Roger Mendelson,
CEO of Prushka

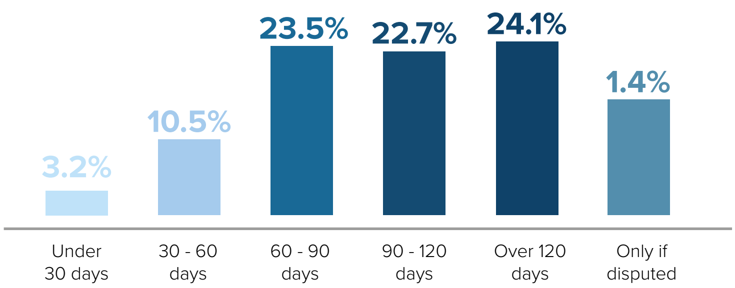
In the past 12 months, has your time spent collecting debts increased or decreased?



Do you think collecting debts has become easier or harder over the past 12 months?



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



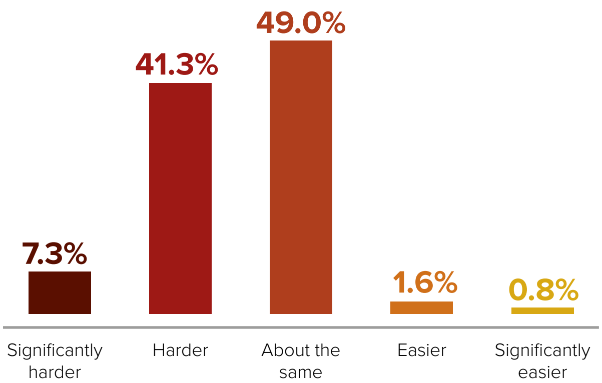
HOUSEHOLDERS BEWARE:

time to cut spending, reduce debt and build reserves against upcoming downturn

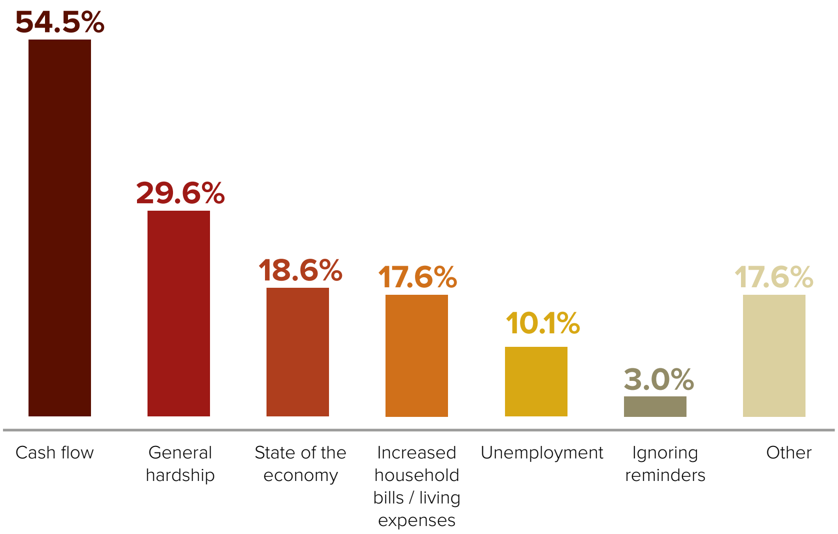
Despite some of the more positive business-related findings, the survey findings reveal some potential rocky times ahead, in particular, for householders. Some 49 per cent of respondents have found that debtors (largely householders) are finding it hard to pay their debts, with 54 per cent of respondents believing their customers are experiencing cash flow issues. This indicates that **a significant percentage of householders lack sufficient financial reserves to be able to properly withstand an economic downturn.**

> *"This is a real cause for concern because, with interest rates and unemployment low, from the householder perspective, the economy is probably as good as it is likely to get. If more are finding it hard to pay their debts, it is an indication that they have been overspending and have little in the way of financial reserves. Should there be a downturn, with higher unemployment and interest rates and less overtime, this is likely to have a compound effect, accentuating economic decline. From a public policy point of view, the RBA needs to send out further warnings to householders to reduce spending now and increase financial reserves."*
>
> **Roger Mendelson,**
> CEO of Prushka

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



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

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