PRU$HKA
FAST DEBT RECOVERY
NO RECOVERY - NO CHARGE

MAY 2020

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, contributing significantly to the Australian economy. Despite this, there is little research conducted into the current conditions of this sector.

Prushka's Canary in the Coal Mine report provides insights into the current small and medium business (SME) landscape and its relation to the Australian economy more broadly.

ABOUT PRUSHKA

Prushka Fast Debt Recovery is one of Australia's largest and oldest debt recovery agencies, acting for more than 58,000 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 44 years and its clients are located right across Australia and cover all business segments.

ABOUT THE SURVEY

Now in its 14th year, the Canary in the Coal Mine report is based on responses from a survey of Prushka's clients from around the country and across more than 30 industries ranging from 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 483 respondents to the survey in March/April 2020.

ADAPTABILITY AND FLEXIBILITY CRUCIAL FOR BUSINESS SURVIVAL

Since we started our first Canary in the Coal Mine report, Australia has seen a period of tremendous economic growth and stability.

During this time, and particularly in the past few years, the SME sector has reported strong business confidence and continued plans for growth. While we felt the economy was overdue for a minor downturn, no one expected an event like COVID-19 to so drastically turn the global economy on its head.

For the first time in years, our research has revealed a sharp drop in business confidence, and strong concerns from businesses about their future.

Cash flow, profitability and growing their customer base remain key business concerns. Encouragingly, most businesses say they have a cash buffer in place or can rely on personal reserves to assist them in difficult times; something which could be very important when the government stimulus packages conclude.

Building and construction remains the industry that takes the longest to pay invoices. There are real concerns for the health of this industry going forward, as current construction projects wrap up and future projects are either cancelled or put on hold in the wake of COVID-19 restrictions.

For the first time in two years, hospitality and retail have also been called out as industries that take the longest to pay invoices. Both industries have suffered greatly as a result of COVID-19 restrictions and the short-term health of these sectors is still unknown. Hospitality in particular has all but ground to a halt and will likely be impacted for longer than any other industry bar tourism.

For SMEs to survive in this new normal, they must be adaptable, flexible, and able to act on decisions quickly. Strong cash flow processes are more important than ever for survival.

BUSINESS CONFIDENCE SLASHED

Business confidence has taken the biggest hit in recent memory, with Australian SMEs feeling the flow on effects of a struggling global economy.

Only 22 per cent of SMEs are currently confident in their businesses to some degree. This figure has declined significantly in the past 12 months, when 40 per cent expressed confidence.

SMEs are preparing to continue operating in a volatile environment, albeit at a reduced output, with over two thirds of businesses planning to consolidate or cut costs over the coming year.

Growth is not a priority at this time with less than a third of businesses planning for it. This figure has plummeted by 20 per cent compared to this time last year.

More than half of SMEs note that COVID-19 has negatively impacted their business. Other factors that have had a significant negative impact on business remain the state of the economy, followed by consumer spending, both of which have been heavily influenced by COVID-19.

Debt levels have continued to remain consistent, with just under half of respondents saying they have less than $10,000 outstanding debt beyond their trading terms in a normal month. Given the current environment, this is somewhat surprising, however we expect to see this increase in June – around three months into this lockdown period and the point at which most businesses will register unpaid bills as debts.

It is not surprising most businesses are in survival mode, given the current state of the economy.

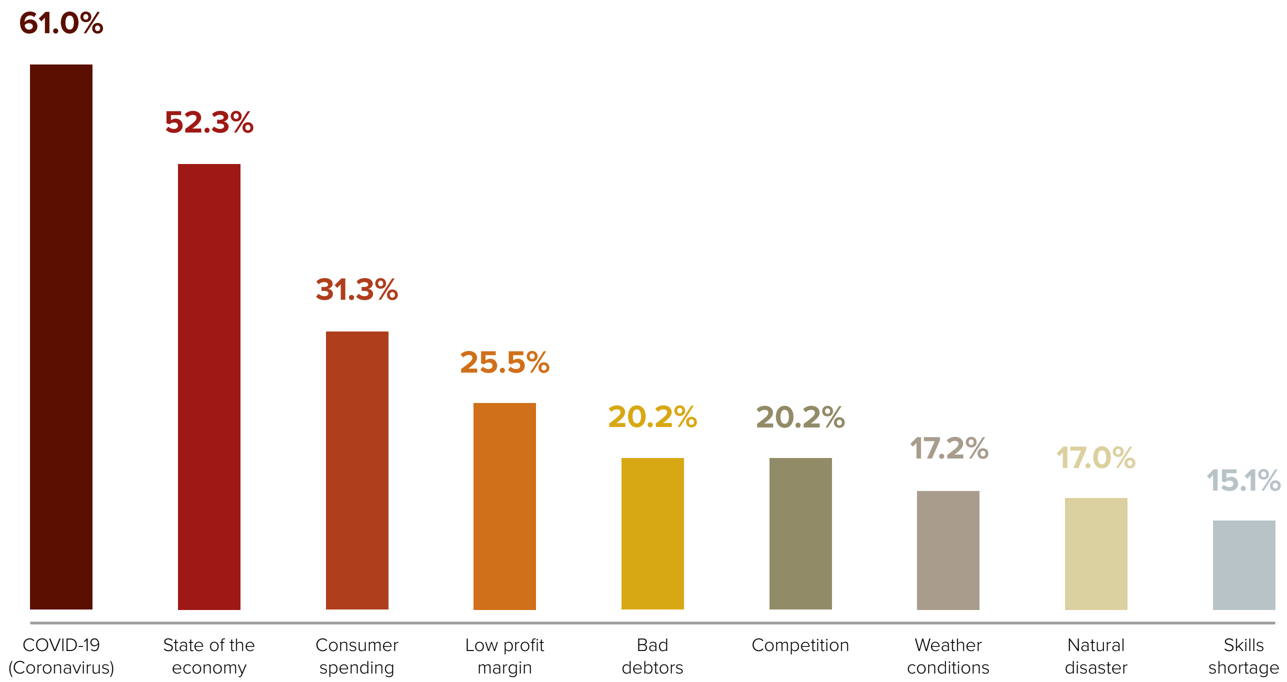
In the short term, SMEs need to improve on inefficiencies where possible and regularly review their cash flows.

If you do not have business contingency plans in place, it is imperative you do so. Planning for best- and worst-case scenarios, and implementing a framework for potential future issues is key.

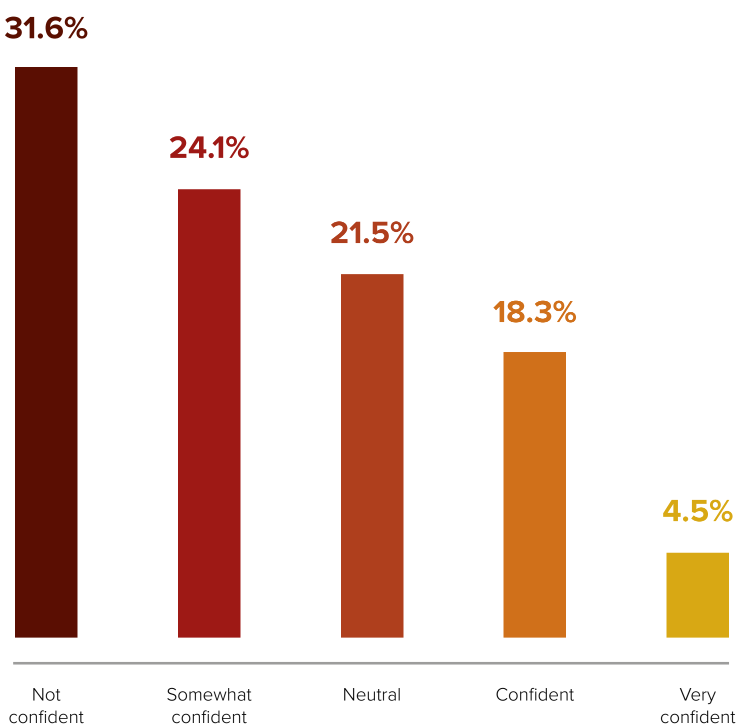
Roger Mendelson,

CEO, Prushka

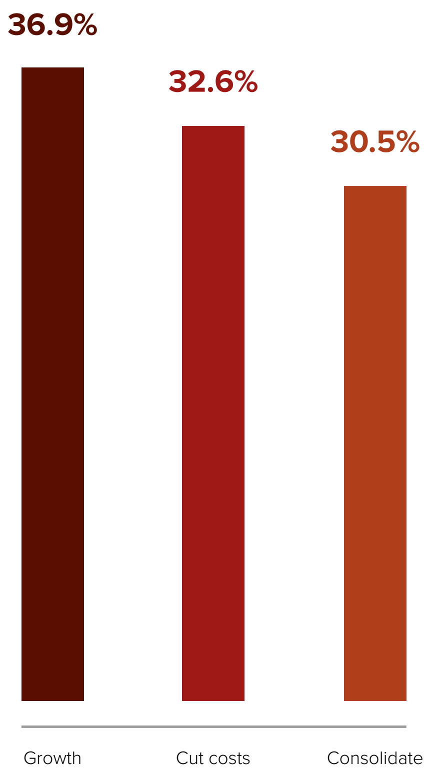
In the past 12 months, what would you say has had a negative impact on your business?



How would you rate your business confidence right now?



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



DEBT EFFICIENCIES IMPROVING

Nearly two-thirds (64 per cent) of businesses are spending less than 5 hours a month chasing unpaid debts. This figure has increased by 20 per cent over the past 18 months and is a positive sign that businesses are continuing to streamline their collection systems and exercise tighter credit assessment criteria.

Despite spending less time chasing unpaid bills, 47 per cent of businesses have said they are finding it harder to collect debt, and 53 per cent believe it has become harder for debtors to repay debts compared to 12 months ago. Three out of five SMEs will wait over 90 days, or only if the bill is disputed, before referring a debt to a collection agency. This figure has largely remained the same over the last 12 months.

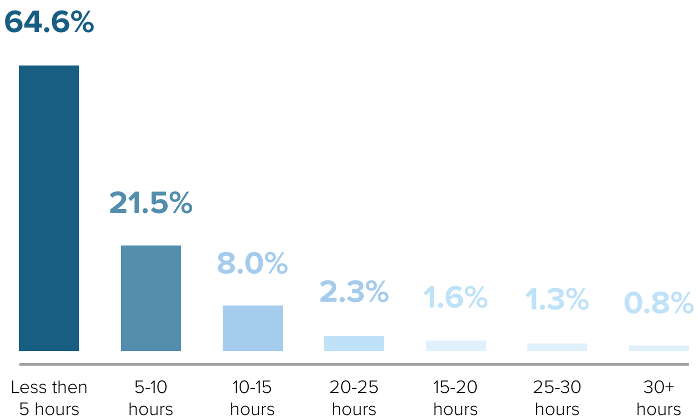
It's great to see SMEs cutting down the time they spend chasing their debts however it is concerning that they are finding it harder to collect overall.

Despite this, there has been no material change in the willingness of SMEs to grant credit to customers, which is a positive sign as providing credit will be critical to developing momentum in the economy as it begins to rebuild.

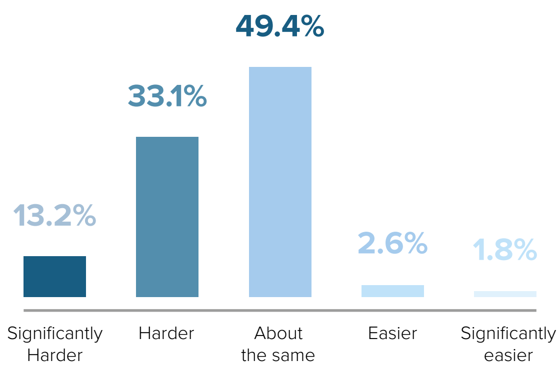
Roger Mendelson,

CEO, Prushka

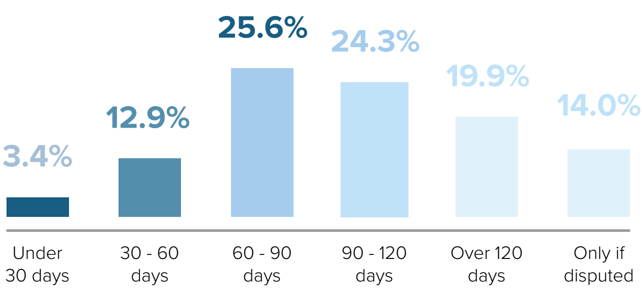
On average, how many hours per month do you or an employee spend on recovering unpaid debts?



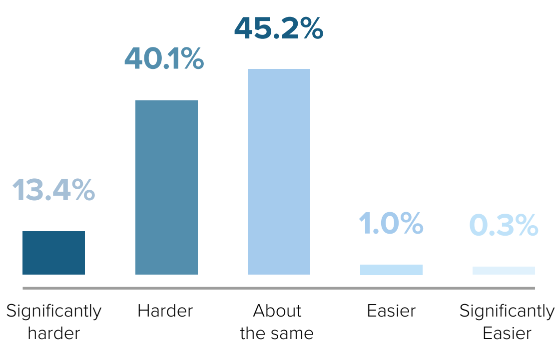
Do you think collecting debts has become easier or harder over the past 12 months?



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



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



CASHFLOW IS STILL KING

More than half of SMEs said they have a cash buffer in place to cover any cash flow issues. This has continued to increase over the past 18 months and shows SMEs are implementing good business processes to ensure their cash flow is healthy. Despite this, businesses are continuing to rely on personal funds as a temporary measure, a trend which has also risen over the past 18 months.

Forecasting a business' cash flow ahead of time can help you plan any expenses around your projected cash inflows. Tightened lending standards from the banks over the past few years, and particularly since the Hayne Royal Commission, has resulted in businesses being more efficient and cautious. While a lack of bank lending for SMEs made it more difficult to finance a business, it has made most businesses more self-reliant and has likely been a positive in the current scenario with fewer businesses operating beyond their means.

The building and construction industry remains the industry that takes the longest to pay invoices, a trend that has continued for the past 18 months and this has been largely unaffected by COVID at this stage. More concerning is the rise of retail and hospitality which have increased in the past six months. These industries have been significantly impacted by COVID-19 and, for businesses that supply to these industries, it is important you provide stringent payment terms in writing to ensure you get paid.

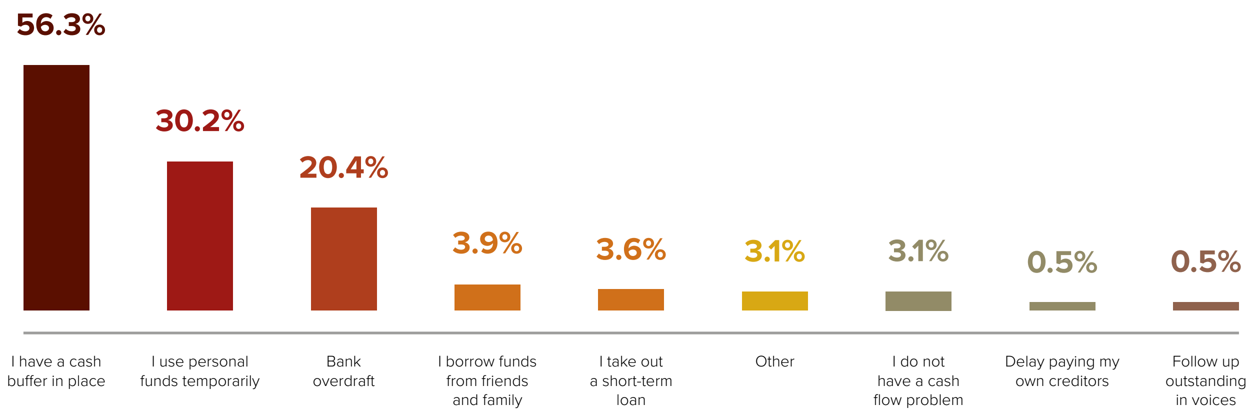
There is inbuilt resilience in the SME sector because businesses have low gearing and have been forced to 'live within their means' for many years because bank finance has been hard to get.

Given the current stress in the economy, it is more important than ever that businesses are reviewing and adhering to their credit collection processes, as they will become critical to the survival of many businesses.

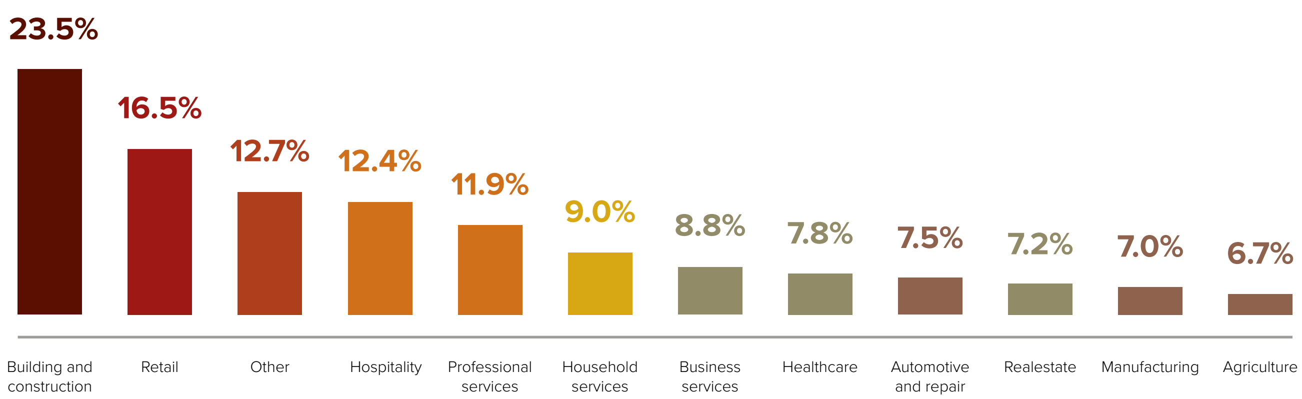
Roger Mendelson,

CEO, Prushka

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



Which industry typically takes the longest to pay invoices?



BUSINESSES ARE PREPARING FOR TOUGHER TIMES

Profitability is the biggest concern keeping more than half of SMEs up at night. Managing cash flow, growing their customer base and employee retention are also major concerns.

These concerns are in line with previous surveys however it is worth noting that both profitability and cash flow have increased in importance over the past 12 months, driven by the current economic environment.

When asked about the future, two-thirds of respondents are concerned that Australia will experience a recession as a result of falling markets and 62 per cent believe the impact will be as severe, or more so than previous economic downturns.

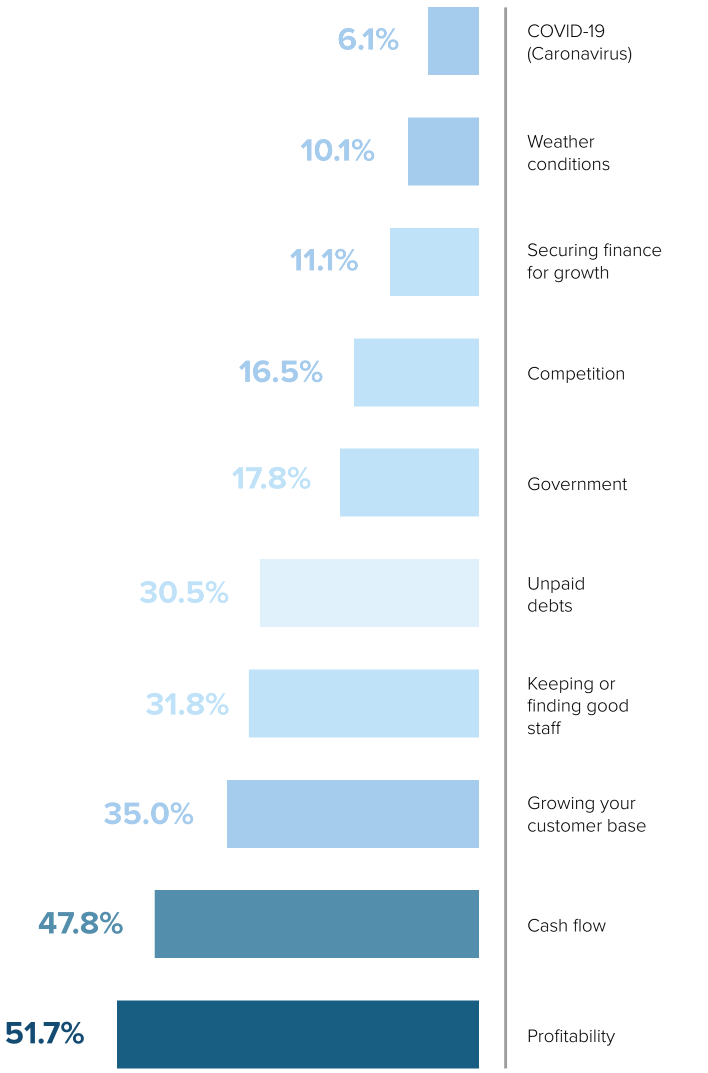
It is not surprising that so many businesses are concerned about a recession and, although we have not yet reached the technical definition of recession, Australia's already weakened economy is at risk, and the risks of a depression are high. However, I personally feel now that we will avoid a depression.

Jobkeeper was a brilliant exercise that happened quickly and, while there are a few teething problems, by and large it has helped businesses keep employing people. Domestic businesses will be fine, though those relying on exports will certainly face difficulty.

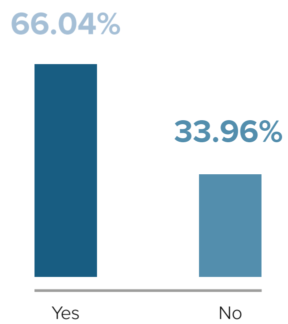
Roger Mendelson,

CEO, Prushka

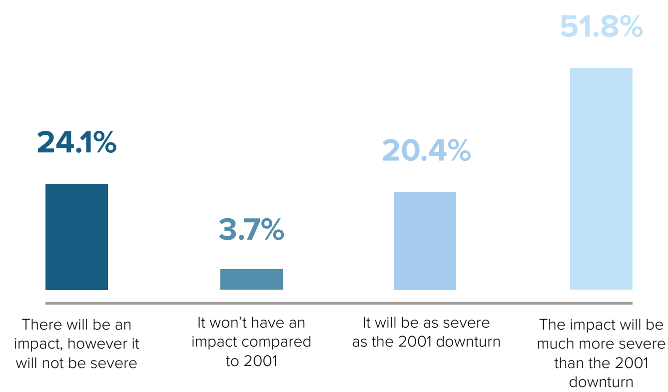
What issues are you most concerned about with regards to your business in the next 12 months?



Are you concerned about a recession from the stock market crash?



If yes, how severe do you think this will be compared to the 2001 downturn?



FOR MORE INFORMATION

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

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