



NEWS FLASH

March 2010

The *March Test* Looms For SMEs

Key Facts

- Historically higher rates of insolvency in March
- March 2010 results will be litmus test for SMEs and Australian economic recovery
- SMEs employ 70% of working Australians

The March 2010 results are set to be a stress test barometer for Australia's SMEs (Small to Medium Enterprises) and the broader economic recovery. Historically, March often brings a dramatic rise in activity for the insolvency profession. A number of factors conspire to make the first quarter of the calendar year one of the most difficult trading periods, whether it be the hangover of an unexpectedly light Christmas, insufficient capital to boost production or any of several other factors. This year in particular, operators of SMEs will have found numerous challenges awaiting them. In this article we discuss these challenges, the likely trigger points for trouble, and the contradictory positive message emerging from several SME surveys.

This first way-point should provide insight into how SMEs are genuinely travelling and their capacity to adapt to improving market conditions. A good result is a tick for the health of the Australian economy, a bad result is perhaps an ominous sign that recovery is still some way off, and the 70 per cent of the Australian workforce employed by the SME sector should still have reason for concern. Taylor Woodings has seen an up-tick in activity, and is watching closely to see if this mirrors the performance of the broader business community.

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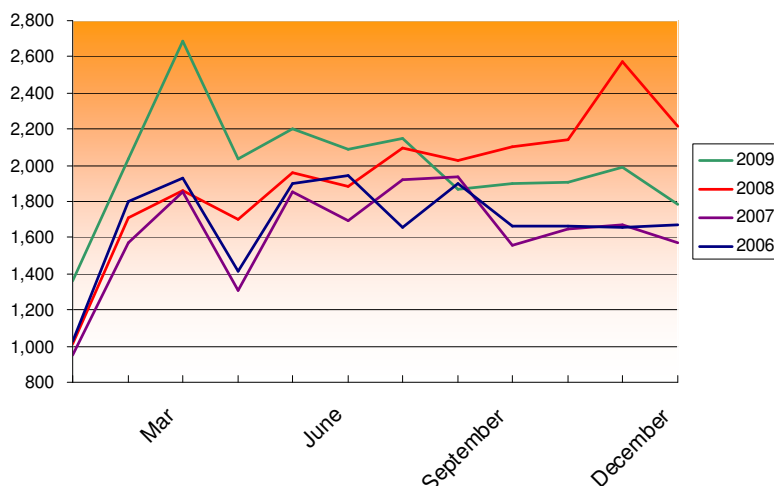
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Companies entering external administration or insolvency



The GFC has largely come and gone for the big end of town, but for SMEs several legacy issues will make them more susceptible to insolvency and external administration in 2010. Having struggled through the credit crisis many SMEs will, with resources, inventories and contingencies exhausted, paradoxically struggle to respond to the challenges of a growing economy. These new challenges include:

- Sudden boosts and then declines in industry demand due to stimulus package spending;
- Inability to finance new production to replace inventory;
- Competitors simply better placed to boost production and/or marketing activities that allow them to increase market share;
- Increased reporting requirements and scrutiny by creditors
- Rising interest rates

Yet running counter to the projections of doom are several surveys¹²³ that indicate more favourable trading conditions, expectations of higher salaries and a general rise in the confidence levels of SME operators.

So which is the more accurate position? Do these surveys reflect reality or did they just capture pre-Christmas optimism? Are SME operators simply positive because of doom fatigue, and believe that a rebound must be inevitable? March results, where the rubber hits the road, maybe the final arbiter of this debate.

Based on Taylor Woodings' insight into the sector, the typical challenges currently facing SMEs include:

Industry/Market Challenges

- Legislative change
- Strong Australian dollar affecting export price-competitiveness

Management Challenges

- Inflated values paid for assets prior to GFC has left many SMEs highly geared, especially in the property sector
- Addressing inadequate financial reporting / management
- Attending to accumulated tax arrears
- Identifying advisors appropriate for SME business
- Adequacy of management skills and size,
- Managing rapid expansion, and / or sudden declines,

Financial Challenges

- Managing the increasing number of lender covenant breaches, including Loan to Value Ratios, shortfall in earnings and inadequate reporting
- Obtaining often urgently required funding for capex and/or working capital

Not all SMEs are the same, and there will always be a mixed ability to deal with adverse circumstances. Any failure of weaker businesses can present an opportunity for the stronger.

¹ http://www.nab.com.au/wps/wcm/connect/nab/nab/home/business_solutions/10/1/12

² <http://www.speakingsensis.com.au/news/green-shoots-for-australia%e2%80%99s-small-businesses-452.html>

³

http://www.hsbc.co.id/1/PA_1_2_S5/content/indonesia/emailblast/cmb/SME_Business_ConfidenceSurvey/pdf/PW-S-SME%20confidence%20survey-english.pdf

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But the last few years will have tested even the best planned businesses and 2010 may offer only limited relief.

ASIC's insolvency-appointment statistics for March will be released five weeks after the end of the month and should make for compelling reading.

Taylor Woodings is a national Independent advisory specialising in Corporate Advisory, Restructuring, Corporate Recovery and Forensic Accounting. Having worked on some of Australia's largest and most high-profile matters we are able to draw on our significant experience and industry proximity to provide insights into current business trends and issues.

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