

# News Release

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## Australian private businesses: upturn ready or not

Private businesses have weathered the economic crisis well, but must now focus on planning for the upturn or risk losing market share, according to the sixth edition of PricewaterhouseCoopers Private Business Barometer released today.

PricewaterhouseCoopers partner Gregory Will says, "Private businesses felt the impact of the global financial crisis and went back to basics in order to survive, however there is a real risk that they won't be prepared for the upturn."

"While we are seeing signs of recovery in the capital markets, as many as 80 per cent of private businesses are not planning for the upturn. The private businesses that are agile and prepared for the next cycle will steal the march on their competitors.

"Private businesses need to look forward and act to combat the stiff competition from businesses that have planned for the upturn and will emerge from the bunkers ready to hustle," Mr Will says.

East & Partners Principal Analyst Paul Dowling says, "It is clear that private businesses still face an uphill battle in steering through the current economic environment. Nevertheless, a growing number of businesses see the hilltop drawing near and are expecting a smoother ride as the economy leaves the worst of negative growth behind."

The PricewaterhouseCoopers Private Business Barometer, in conjunction with East & Partners, asked challenging questions of 758 private business owners with an annual turnover of between A\$10 to \$100 million.

Their responses provide insight on growth, funding, operations and people to paint an overall picture of how private businesses are managing their risks and opportunities.

### **GROWTH**

Private businesses are still showing signs of growth with sales up by 6.8 per cent and profit up by 5.8 per cent, over the past six months. Although this is slower than in previous periods, the

performance is better than has been reported in other areas of the economy during the past six months.

“Over the last six months private businesses have cut their cloth to survive the economic conditions. Businesses now need to shift their approach from survival to growth. Their future depends on moving away from a cost control focus to a plan of action for future growth.

“Private businesses will need to maximise their competitive advantage by drawing on their agility and entrepreneurial spirit,” says Mr Will.

Almost 40 per cent of businesses which met or exceeded set targets in the past year were unable to explain the reason for their growth performance, revealing there is considerable uncertainty among businesses about their operating environment.

Additionally, one quarter of businesses remain cautious and believe there is no likelihood of short term growth. However, the number of businesses that are optimistic about growth opportunities in the next twelve months is increasing. Organic growth remains at the heart of their plans.

“Organic growth can be a slow way to achieve growth and businesses should also be encouraged to explore external opportunities to help meet their growth aspirations,” says Mr Will.

During the past year, average profit growth achieved in Western Australia and Queensland was 12.8 per cent and 12.7 per cent respectively. New South Wales and Victoria continued to be the weakest performers with average profit growth of 2.2 per cent and 4.7 per cent respectively.

## **FUNDING**

Access to funding continues to act as a brake on capital expenditure (CAPEX), with almost 90 per cent of private businesses reporting CAPEX constraints.

“The issue of funding remains the number one challenge for this sector and the biggest impediment to growth, With many businesses looking to fund major investments over the coming year, this is a serious issue,” says Mr Will.

An appetite for investment is returning to the private business sector with the number of private businesses looking to make major investments jumping nine percentage points to 50.7 per cent from the 41.7 per cent low recorded in March.

According to the Private Business Barometer 6 out of 10 private businesses had their debt facilities reviewed by their lender over the past 6 months, with almost half reporting their loans had been repriced.

Businesses have certainly been focused on paying down debt. The average debt ratio has recorded its biggest reduction since the Barometer was first released in February 2007. The current ratio is 31.2 per cent giving businesses the flexibility to leverage the business if required.

“However, in order to access funds in this competitive environment, all business owners need clear and concise business plans,” says Mr Will.

## **PEOPLE**

Private businesses have made many staff cuts in order to survive and hiring intentions have sunk to a new low with only one in six businesses intending to hire additional employees. This is well down from nearly half in August 2007.

One in seven businesses are actively planning to cut staff numbers during the next six months and positioning themselves as an employer of choice is not a priority.

“It is not surprising to see many businesses keeping a tight rein on costs and holding off recruiting new staff as they cope with the pressures of the economy,” says Mr Will.

Mr Will says, “Now is the time for businesses to review their longer term people strategy as the balance between the volume in the talent pool and employer need can shift rapidly.”

## **BUSINESS OPERATIONS**

The competitive drivers for businesses have certainly seen a shift since February 2007. Two and a half years ago, customer expectations and demands were driving competition, today pricing is the main competitive driver.

“There is a link between Australia private business’ hesitation to expand offshore and businesses attributing the strong domestic economy as the major factor for meeting their set targets. Nine out of ten private businesses draw their revenues from domestic markets,” says Mr Will.



Many business owners have no desire to transition from their businesses. Three quarters in fact, have no plans to exit their businesses in the next two years. Of the small number of owners that are looking to exit, they intend to hand over the reins to a family member.

## **ENDS**

### ***About the survey***

*The PricewaterhouseCoopers Private Business Barometer is based on direct interviews with a natural sample of more than 750 organisations with an annual turnover between A\$10 and \$100 million. The interviews were conducted by East & Partners during August and September 2009.*

*The national bi-annual survey includes responses from businesses in the following sectors: manufacturing, agriculture and fishing, communications and transport, distribution and wholesale, retail, property, business services, finance and insurance and other. Most of the direct interviews were conducted with business owners, CEOs and CFOs.*

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