

## Australian Accounting Industry Commercial Risk Snapshot

This key industry snapshot has been prepared by SmartFee in conjunction with SV Partners. The data has been sourced from the analysis completed by SV Partners for their Commercial Risk Outlook Report March 2017.

### Accounting Industry Australia\* - Number of firms by Risk Category

| State        | Risk Band 1                  | Risk Band 2 | Risk Band 3 | Risk Band 4         | Risk Band 5 | Risk Band 6                  | Risk Band 7 | Risk Band 8 | Total        | Total High Risk (Band 1,2,3) | % High Risk Band (1,2,3) | % Medium Risk Band (4,5) | % Low Risk Band (6,7,8) |
|--------------|------------------------------|-------------|-------------|---------------------|-------------|------------------------------|-------------|-------------|--------------|------------------------------|--------------------------|--------------------------|-------------------------|
|              | ←----- Severe to High -----→ |             |             | Moderate to Average |             | ←----- Low to Minimal -----→ |             |             |              |                              |                          |                          |                         |
| NSW          | 2                            | 16          | 25          | 268                 | 389         | 1838                         | 751         | 418         | 3707         | 43                           | 1.2%                     | 17.7%                    | 81.1%                   |
| VIC          | 2                            | 7           | 15          | 160                 | 310         | 1364                         | 626         | 433         | 2917         | 24                           | 0.8%                     | 16.1%                    | 83.1%                   |
| QLD          | 2                            | 4           | 17          | 183                 | 297         | 1005                         | 200         | 58          | 1766         | 23                           | 1.3%                     | 27.2%                    | 71.5%                   |
| WA           | 1                            | 1           | 2           | 33                  | 142         | 268                          | 302         | 198         | 947          | 4                            | 0.4%                     | 18.5%                    | 81.1%                   |
| SA           | 0                            | 2           | 0           | 26                  | 53          | 187                          | 236         | 124         | 628          | 2                            | 0.3%                     | 12.6%                    | 87.1%                   |
| TAS          | 0                            | 2           | 0           | 13                  | 15          | 57                           | 9           | 11          | 107          | 2                            | 1.9%                     | 26.2%                    | 72.0%                   |
| ACT          | 0                            | 0           | 0           | 12                  | 22          | 79                           | 30          | 15          | 158          | 0                            | 0.0%                     | 21.5%                    | 78.5%                   |
| NT           | 0                            | 0           | 0           | 4                   | 4           | 27                           | 11          | 7           | 53           | 0                            | 0.0%                     | 15.1%                    | 84.9%                   |
| Unclassified | 0                            | 0           | 0           | 0                   | 1           | 11                           | 4           | 5           | 21           | 0                            | 0.0%                     | 4.8%                     | 95.2%                   |
| <b>Total</b> | <b>7</b>                     | <b>32</b>   | <b>59</b>   | <b>699</b>          | <b>1233</b> | <b>4836</b>                  | <b>2169</b> | <b>1269</b> | <b>10304</b> | <b>98</b>                    | <b>1.0%</b>              | <b>18.8%</b>             | <b>80.3%</b>            |

### How the scores are determined:

Key contributing factors (not limited to) that frame a risk score are as follows:

- The type and frequency of credit enquiries
- The time since a business/company made or changed its registration
- Credit activities including credit enquiries or adverse information of the business proprietor
- Existence of default information on a company file
- Credit source enquiries that a company makes may impact its trade history
- Serious adverse event information recorded such as a previous external administration or other serious adverse events on file
- Industry based enquiry patterns
- Director information and credit activity of a company director such as credit enquiries or adverse events

\* The industry refers ANZSIC Class 6932 Accounting Services. This class consists of units mainly engaged in providing accounting services such as auditing of accounting records, preparing financial statements, preparing tax returns and bookkeeping and excludes units mainly engaged in providing payroll processing, billing or record-keeping services are included in Class 7291 Office Administrative Services.

A business is likely to face many financial and non-financial challenges during the business life cycle. Although most businesses will work through and overcome major challenges, 12.3% of businesses have exited trading in the market sector. (Australian Bureau of Statistics, 8165.0 - Counts of Australian Businesses, including Entries and Exits, Jun 2012 to Jun 2016)

Our SV Strategic Solutions business experts have outlined the following actions required by businesses to overcome various degrees of risk of possible failure and essentially prosper throughout the business life cycle.

| Level of Risk of Possible Failure                  | Action Required                          | Explanatory note  |
|--|--|---|
| High to Severe Risk<br><i>Risk Band 1 - 3</i>      | Stabilisation                            | The chances of successfully bringing a businesses out of its distressed position are low, unless there are only one to two specific issues to be addressed and sufficient time frame to execute required stabilisation strategies. These businesses need a rapid assessment of options and only quick win strategies are likely to have any effect. Effecting stabilisation is likely to be much more achievable. These businesses should undergo a full situational analysis and needs assessment to identify and prioritise strategies and associated action plans. |
| Average to Moderate Risk<br><i>Risk Band 4 - 5</i> | Business Improvement                     | Businesses should be looking to adopt improvement strategies to ensure that they do not slip into lower risk bands and are able to position themselves for future growth. These businesses generally have a few operational inefficiencies, technology or people challenges and could also be missing out on market opportunities. This is the greatest scope to add value to these businesses to bring them into the most effective performers amongst their peers.  |
| Minimal to Low Risk<br><i>Risk Band 6 - 8</i>      | Efficiency, Growth and Value Enhancement | Businesses need to look at opportunities to further enhance operational efficiencies, generally through technology advancements, and develop strategies to grow into new markets or geographies. The focus of a business in this risk band will generally be external – looking for M&A opportunities to further growth, new markets or products/services to increase revenues and profitability or structuring the business ready for a founder/CEO to exit.   |

Business assessments need to be broken down to consider five key areas individually, and then prioritised into a sum of their parts to produce effective recommendations for diminishing current and future risk:

1. Market position, market performance and direction
2. Products and services – customer fit
3. Internal operational efficiency
4. Financial performance and working capital
5. Culture and organisational structure/performance