

Thursday, 2 June 2011.

Business failure and start-up analysis March quarter 2011

Both business start-up and failure numbers are maintaining their 2010 highs signalling that while the macro-economic environment is enticing entrepreneurs into the marketplace poor management of business fundamentals is causing financial distress. These are the findings from Dun & Bradstreet's business failure and start-up analysis for the March quarter 2011.

Business failures for March quarter 2011

The number of business failures in the March quarter 2011 has remained steady with 2010 levels on an annualised basis. While it is encouraging that the rate of failure has not increased it must be noted that business failures had jumped 23 percent in 2010 year-on-year. This means that the volume of business failures remains at historically high levels.

Key findings:

- 2,340 firms failed in the March quarter 2011
- This compares to the total number of failures in 2010 of 10,039
- The manufacturing sector had the greatest percentage of failures in the March quarter 2011 followed by the mining and wholesale trade sectors
- New South Wales had the greatest percentage of failures on a state by state basis

Business start-ups for March quarter 2011

The number of new businesses also remained constant with 2010 figures on an annualised basis.

Key findings:

- 37,910 new businesses commenced operations in the March quarter 2011
- New South Wales experienced the largest number of start-ups

Business locations

Of all the businesses that changed their primary place of business:

- 21 percent moved to New South Wales
- 18 percent moved to Victoria
- 13 percent moved to Western Australia

MEDIA RELEASE



Decide with Confidence

- 35 percent departed Tasmania
- 34 percent departed Queensland
- 22 percent departed South Australia

Contributing factors to business failures

While natural disasters such as Cyclone Yasi had an impact on business failures in the March quarter 2011, state by state analysis indicates the impact was not disproportionate with nearly half of all business failures originating in New South Wales.

This suggests that general economic and business conditions were the key factors in business failure. Those conditions included:

- Weak consumer sentiment during the March quarter as indicated by consumer sentiment surveys – e.g. the *Westpac | Melbourne Institute Consumer Sentiment Survey* hit a 9 month low in March 2011
- Weak business expectations – Dun & Bradstreet's *Business Expectations Survey* revealed a decline in expectations across all indices throughout the March quarter. Executives began the quarter with strong expectations for the months ahead but became increasingly despondent about the outlook as the March quarter progressed. Many indices dropped to 2 year lows by the end of March 2011
- Weak business cash flow as trade payment terms deteriorated to three year highs
 - all firms took an average of 55.6 days to pay their trade accounts
 - these were the slowest payment terms in 3 years and the second slowest in a decade
 - firms in New South Wales took an average of 57.5 days to pay their trade accounts
 - the number of firms paying bills in a severely delinquent manner (90+ days) increased 20 percent, while the number paying at 60+ days increased 43 percent

Dun & Bradstreet comment

While the strong number of business start-ups reflects a positive macro-economic environment the number of failures illustrates the impact of fundamentals such as cash flow on business success. Deteriorating payment terms signal that cash flow is tightening for most firms and it is this weak cash flow that primarily drives business stress.

- ENDS -

MEDIA RELEASE



Decide with Confidence

About the analysis

This is the second instalment of Dun & Bradstreet's business failure and start-up analysis. The first release in February 2011 examined annualised figures only from 2008 - 2010. This means that at this stage quarter-on-quarter analysis is not available but will be over-time.

Business failure is defined as an external administration or liquidation event recorded on Dun & Bradstreet's commercial database. Dun & Bradstreet holds commercial information on more than 195 million entities worldwide and 3 million credit active entities in Australia and New Zealand.

For further information or comment please contact:

Sarah Gorman
PR Manager
Dun & Bradstreet
T: (03) 9828 3644
E: gormans@dnb.com.au