

# Business Now

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THE BUSINESS SA SURVEY OF  
BUSINESS EXPECTATIONS

MARCH QUARTER 2020

**COVID-19 SPECIAL EDITION**



**Business SA**  
Chamber of Commerce  
and Industry South Australia

Powered by

 **William Buck**

# The Economy



## BUSINESS CONFIDENCE

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Confidence at  
all-time low

**41.0**

SA Confidence Index

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Business confidence has plummeted and recorded its sharpest drop in over 20 years with a 44.1 point decline to the lowest level of confidence on record. With a floor of 33 points, the index has all but hit rock bottom and reflects the economic downturn inflicted by back-to-back crises' over the past four months, firstly from the bushfires and now the COVID-19 pandemic.

The economic carnage caused by COVID-19 is clear, with this quarter down 54.9 points when compared to the March quarter last year. The downturn is even more significant when compared to the start of the previous decade.

**44.1**



points down from last  
quarter, December 2019

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**54.9**



points down compared  
to March 2019

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**81.7**



points down compared  
to March 2010

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## BUSINESS CONDITIONS

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**COVID-19 closures cause  
business conditions to free fall**

# 66.8

**General Business Conditions Index**

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# 47.3

**points expected for next quarter,  
June 2020**

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The introduction of social distancing restrictions by the State and Federal Governments in a bid to control the spread of the pandemic has caused considerable disruption to the business community, with many sectors facing significant challenges to remain viable. This saw the general business conditions index fall 30.5 points to a record low of 66.8.

With ongoing uncertainty around COVID-19 and rolling restrictions, businesses expect conditions to get worse before they get better with the anticipated index for the next quarter falling further to just above 47.3 points.

# 30.5



**points down from last  
quarter, December 2019**

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# 22.7



**points down compared  
to March 2019**

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# 41.2



**points down compared  
to March 2010**

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# COVID-19 Impact



## REVENUE

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**Revenue suffers significant decline**

**28%**

**of businesses recorded a revenue drop greater than 80%**

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A staggering 70 per cent of businesses said that their revenue had been impacted by COVID-19 by at least 30 per cent, while almost 28 per cent of businesses said their sales had fallen by more than 80 per cent.

However, the results were worse for the hardest hit sectors of accommodation, food and beverage, and retail with 82 per cent of those businesses reporting revenue declines of 80 per cent or more.

### **How much has your revenue been impacted since the introduction of COVID-19 related restrictions?**

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## BUSINESS TRENDS

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### Small business caught in the firing line

When looking at the impacts of COVID-19 by turnover size, the biggest impact on revenue is concentrated heavily on small and micro business size. For example, 81 per cent of businesses with turnovers less than \$500k responded with revenues down by 30 per cent or more. This is in contrast with 51 per cent of businesses with turnover between \$10m and \$50m responding that they had minimal impact to revenue.

Turnover of < \$500k

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**81%**

had drop of 30% or more in \$\$

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Turnover of \$10m–\$50m

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**51%**

reported minimal impact to \$\$

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## STAFFING

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### Businesses forced to reduce staffing levels

With revenue either in decline or non-existent, businesses have made wholesale changes to staffing levels. Only 19 per cent of businesses advised they did not have to reduce staffing hours.

The most popular method of staffing management was shifting to work from

home arrangements followed by a reduction in work hours. While 19 per cent of businesses said they made staff redundant, this could have been much higher, with many businesses reporting that staff were re-hired following the announcement of the Federal Government's JobKeeper package.

**47%**

**moved to working from home arrangements**

**45%**

**reduced working hours**

**20%**

stood down employees

**21%**

asked employees to take annual leave

**“We made 25 redundancies and then brought back 10 people through JobKeeper.”**

Tourism, 50–99 employees, \$50m+ turnover

**19%**

no reduction in staffing levels



## SUPPLY

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### Blocked supply chains cause major delays

A lack of personal protective equipment for staff was a significant supply concern for businesses as they adhere to rapidly changing COVID-19 response measures to stop the spread of the coronavirus.

Increased freight costs were blamed on disruptions to global supply chains with lengthy delays or cancellations in freight commonly experienced. Businesses also reported slower transit times of goods both domestically and internationally.

# 47%

**struggled to source stock  
or materials**

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**“We import from China and while stock is slowly becoming available again, the freight charges have increased dramatically.”**

Retail trader, 1–19 employees,  
\$500k–\$1m turnover

# 21%

**could not access PPE or  
hand sanitiser**

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**“Personal protective equipment – masks, alcohol gel, paper hand towel etc. Masks that normally cost \$13 for a box of 50 were unable to be sourced from dental/medical suppliers. I ended up paying \$102 for a box off eBay.”**

Health and Community, 1–19 employees,  
\$500k–\$1m turnover



## SUPPORT MEASURES

COVID-19 is undeniably one of the greatest challenges the Australian economy has ever faced and could cause long lasting harm.

Accordingly, both State and Federal Governments have responded with unprecedented financial support measures totalling over \$240 billion with an additional \$90 billion from the Reserve Bank of Australia.



## STATE GOVERNMENT

Information overload causes  
COVID confusion

# 61%

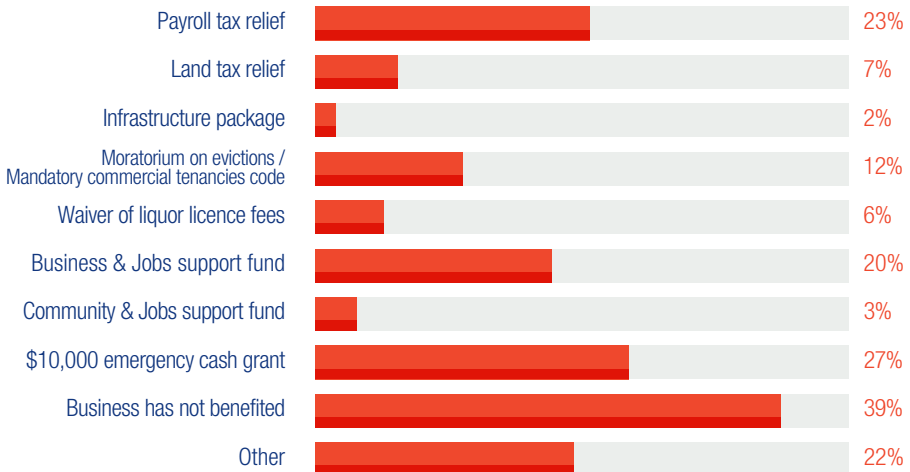
**of businesses had benefited from  
State Government support**

In the main, most businesses welcomed assistance from the State Government. However, the amount of confusion around how to access financial support was concerning. Timing was also raised as a key issue, with businesses worried about how they would “bridge the gap” before support measures kicked in.

**“The \$10,000 emergency cash grant is great but it takes too long to come through. This grant is needed immediately to be able to fund JobKeeper.”**

Retail trade, 1–19 employees,  
\$500k–\$1m turnover

## Has/will your business benefit/ed from the State Government's support?



### Sole traders looking for more support

While non-employing businesses such as sole traders and partnerships have benefited from the JobKeeper scheme, feedback indicated the employee subsidy was not targeted to suit their needs and did not provide relief for the general costs of doing business. Concern was also raised from sole traders and partnerships that the JobKeeper payment was limited to one person.

**“Seems Government has not thought enough about Sole Traders / Partnerships that do not employ staff with no assistance to keep business afloat. We seem to fall through the gap.”**

Wholesale trader, \$500k–\$1m



## FEDERAL GOVERNMENT

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**Businesses receive welcome boost from JobKeeper scheme**

**50%**

**of businesses benefited from JobKeeper wage subsidy**

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The Federal Government undoubtedly released the most significant economic rescue package in Australian history with the sheer scale of the \$130 billion JobKeeper unthinkable before COVID-19. However, the timing of these measures and ability to operate in the short term was raised as a concern for many survey respondents.

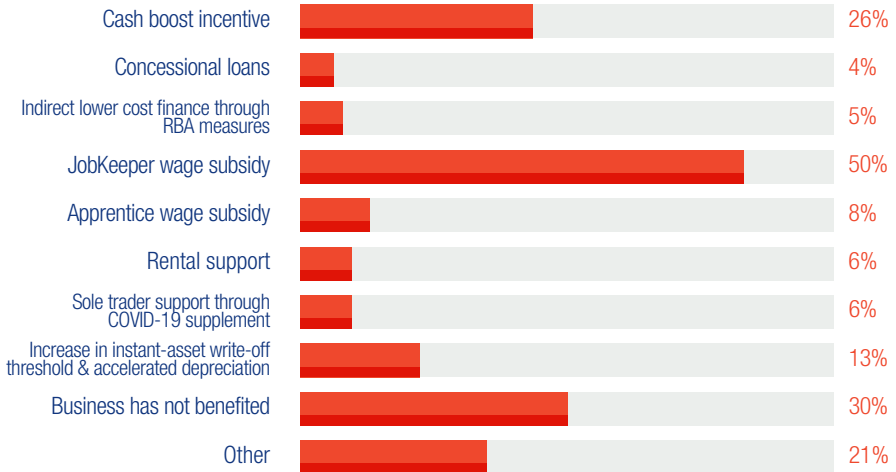
The consensus among businesses was that while the majority welcomed the support packages, it was feared they may not be enough in the short to medium term and failed to adequately address some of the major issues facing businesses.

**“JobKeeper at 30% would be too late for many businesses and maybe too late for many already.”**

Property & Business Services,  
1–19 employees, \$1m–\$2m turnover



## Has/will your business benefit/ed from the Federal Government’s support?



## Key issues

1

Delay in any announcements on commercial tenancies

2

Delay in receiving JobKeeper subsidy and unable to “bridge the gap”

3

Doubts about how effective it will be in the medium term



## THE BANKS

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### Banking support welcome but concerns over rising debt levels

**51%**

**of businesses sought help from the banks**

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**54%**

**of those who did not seek banking support blamed a lack in confidence to borrow more**

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**“They (bank) contacted us and we are working with them.”**

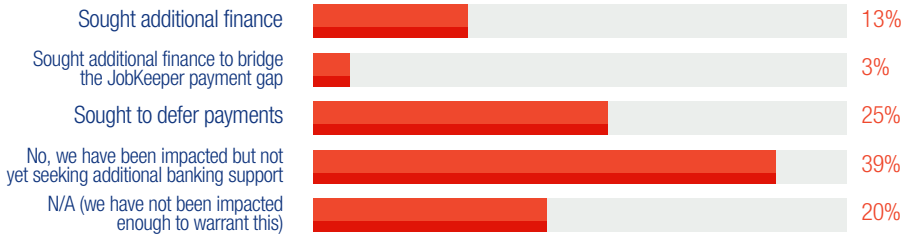
Electricity, Gas & Water Supply,  
1–19 employees, < \$500k turnover

The credit and liquidity measures introduced by the Federal Government and RBA were aimed at providing the banks low cost finance in the short and medium term to ensure businesses “get to the other side” of COVID-19.

However, of the businesses impacted by COVID-19, only 51 per cent said they had sought banking support in the form of additional finance or deferral of payments. Many businesses also reported struggling to “bridge the finance gap” until JobKeeper payments arrived, despite a strong uptake on the offer to defer loan repayments.

The reason for this could be explained by a high proportion of businesses reporting a strong aversion to go further into debt. Moreover, of the businesses that did seek banking support, they were much more likely to only request a payment deferral, as opposed to new or extended banking facilities. When businesses were asked the reason why they opted against requesting additional finance, 54 per cent lacked the confidence to borrow more at present, with the balance citing a range of reasons including onerous finance conditions and costs.

## Has your business sought to access additional finance or defer payments to manage with the COVID-19 restrictions?

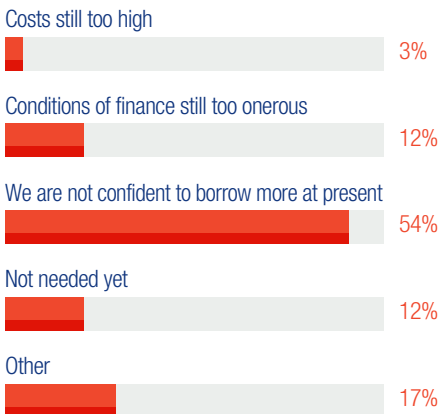


On a positive note, most businesses that sought financial support from banks reported a good experience

# 89%

who had a response from a banking finance request were successful

### What reason have you sought not to borrow more and defer payments?



While 89 per cent of those who received a response on their applications of financial support were successful, 21 per cent of businesses were still waiting on approval of their applications. There were also processing issues reported with some banks not being able to pass on payment deferrals immediately. Though lack of confidence was cited as the most significant reason why businesses did not want to borrow more, many businesses were also concerned about taking on additional borrowings when they were already deferring payments and what impact that would have once the pandemic period was over. In other words, they did not want to generate unfunded liabilities.

**“The measures aren’t helping with cash flow if they don’t provide the cash NOW. The bank has said they will refund our loan payments in the future when our application is processed and that we have been approved for an overdraft to tide us through... but we are currently sitting in the red in our main trading account, waiting for things to kick in.”**

Tourism, 20–49 employees,  
\$1m–\$2m turnover

# BUSINESS ADAPTABILITY

**If there has been one glimmer of light to shine through this COVID-19 storm, it is the ability shown by South Australian business owners to adapt to adversity and not throw in the towel. The business mode this quarter has very much been about adapting and surviving.**

“It is clear South Australian business owners have had to innovate and think outside the square to survive this catastrophic pandemic.

“In at least one positive sign for the economy, 83 per cent of businesses indicated they had been able to adjust their operations in some way to continue operating through the crisis. While a quarter reported they had introduced a new specific service or product in this time.

“What was also promising was that of those businesses that had mobilised staff to work from home, close to 46 per cent said that more than 80 per cent of their workforce were working from home. To continue operating with such a large portion of employees out of the office is a testament to the strong bonds being created between the business owner and their staff.

“Good things will come out of the COVID-19 situation. Businesses are likely to be more agile and with better systems in place having been forced to identify areas for improvement.

“But in the interim, we will be living with the economic impact of this once-in-a-generation crisis for some time to come. It will be a long march to the end, and we have only just begun.”



**Jamie McKeough**  
**William Buck Managing Director**



**53%**

have been able to adjust operations to continue through COVID-19

**31%**

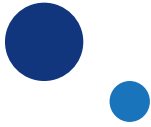
have been able to adjust operations in part

**13%**

have not been able to adjust to operations at all

“We have used the time to scrutinise all business costs including our own income and personal expenses. We are a very small business without a lot of financial backing. Being nimble and prepared to adapt will be essential. It will not be easy, but we will come out of it smarter.”

Professional, Scientific & Technical Services,  
1–19 employees, < \$500k turnover



## WORKING FROM HOME REVOLUTION

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Business showed great agility transferring the bulk of staff to work from home arrangements

**46%**

were able to transfer more than 80% of workforce to work from home

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## PIVOTING BUSINESS MODEL

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Business keep wheels turning with new products and services

**24%**

were able to introduce a new product or service

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### Top 3 new products or services:

1. Moved to online platform
2. Introduced takeaway sales
3. Telehealth services

“We have moved to online sales and are continuing to open to the public for reduced hours but it is only returning a fraction of previous income.”

Tourism, 20–49 employees,  
\$1m–\$2m turnover

## CASE STUDY: MARY-LOU CORCORAN, AURORA OZONE HOTEL, KANGAROO ISLAND

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**Many who have visited Kangaroo Island would be familiar with the Aurora Ozone Hotel. The third largest employer on the Island, in peak season General Manager Mary-Lou Corcoran would normally have 71 employees under her watch.**

But following the double whammy of the summer bushfires followed by the coronavirus, that number has dwindled down to 24. Like most businesses across the State, Ms Corcoran's confidence took a dive alongside falling revenues once borders were closed and tourists told to stay away.

For the month of April, the hotel saw sales drop by an incredible 93 per cent compared to the same month in 2019. For the first time in its 118-year history, the hotel was closed on weekends.

Extensive takeaway and home delivery services were put into action during the week to keep some employees working.

"It was a very strange and bizarre feeling to have our doors closed," said Ms Corcoran.

"It was very devastating to have to let staff go but with tourism it is not an option to work from home.

"We have managed to retain some staff where we can and kept them working on site in groups of two completing maintenance, painting and cleaning tasks. This has allowed

them to stay motivated. It also gives them some ownership of the property, so they still feel connected.

"We have also used this time to adapt many of our Standard Operating Procedures and cleaning methods and introduced new hygiene procedures and protocols for when we are ready to welcome guests again."

Despite the immense challenges and significant hit to their bottom line, the hotel is remaining as upbeat as it can under the circumstances and refusing to cave into the crisis.

"We are all trying to remain positive that we will be able to recover occupancy in a timeframe that will allow us to rebound from what has been an unpredictable situation," Ms Corcoran said.

"We are working more closely with our tourism allies. The support from our many suppliers through the bushfire period and now the coronavirus has been exceptional.

"Tourism will recover slowly and with sound marketing we will hopefully capture the demand for those wanting to reconnect with family and friends in the beautiful surrounds of the Island. The International market will take a little longer to rebuild strength and we are currently working over all the proposed rates for the next two years to create the incentive to return."



## LANDLORDS & LEASES



## RENT NEGOTIATIONS

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### Commercial tenancy obligations causing headaches

**71%**

of commercial tenants said they had been significantly impacted (turnover down by 30%) by the COVID-19 restrictions

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Rental obligations for commercial tenants was revealed to be a major pressure point during COVID-19 with 71 per cent of business owners who said they were also commercial tenants, reporting that they had been heavily impacted by the virus and had suffered revenue declines of 30 per cent or more.

**“I paid our rent for April but will struggle to pay in May.”**

Manufacturing, 1–19 employees,  
\$2m–\$5m turnover

There were mixed results for those businesses that did enter negotiations with their landlords

**76%**

were successful in obtaining rent relief, to varying degrees, after negotiations

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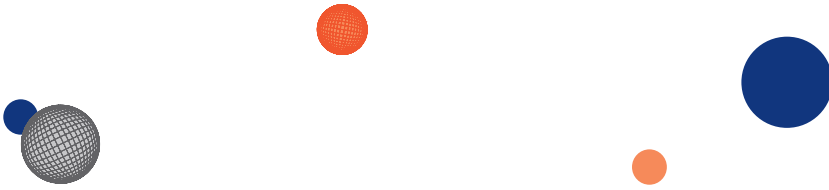
**24%**

received no rent relief following their negotiations

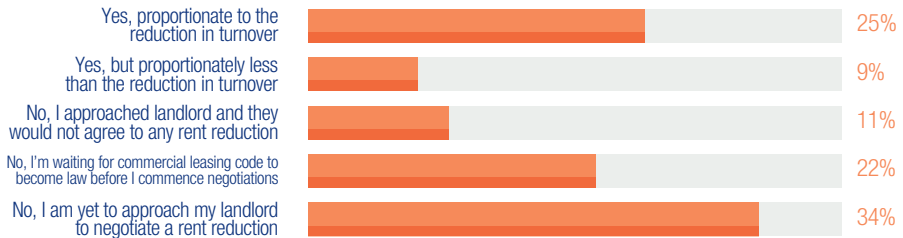
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**“Our landlord in the city of Adelaide has been fantastic. We had a very pleasant meeting and were able to agree on fair terms very easily.”**

Health and Community, 1–19 employees,  
< \$500k turnover



## Have you been able to negotiate a rent reduction with your landlord?



While the release of the commercial leasing code came out from the Federal Government just prior to this survey, to date, the code has not been fully adopted by the State Government.

While some businesses made complaints about unreasonable conduct from landlords, there were also plenty of stories of landlords acting in good faith passing on rent reductions and deferrals. For example, a quarter of respondents said their rent relief was proportionate to their reduction in turnover as is set out in the National Commercial Leasing Code.

Yet, when we delve deeper into the data, businesses with a turnover less than \$500k, were found to be twice as likely to be unsuccessful in rent reduction negotiations than businesses in the \$2m–\$5m turnover bracket.

However, waiting for the code to become law was raised as the greatest hesitation for businesses to start negotiations with their landlords.

**“Three of our landlords have fully waived rent, and another has provided a 50% waiver. However, one of our landlords would not negotiate, managed by a multi-national, they have been hard lined, inconsiderate, insensitive and suggested we needed to be more resourceful in developing new business opportunities.”**

Tourism, 50–99 employees,  
\$5m–\$10m turnover



# BUSINESS SURVIVAL

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## The outlook appears grim if restrictions remain in place

# 63%

**think they will not survive  
if restrictions last longer than  
6 months**

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We concluded our survey with a very simple question – how long can your business survive under current restrictions?

The coming months will be critical with 36 per cent of business casting doubt on whether they can last another three months with restrictions in place, which highlights a lack of financial reserves for most SMEs. Only 37 per cent of businesses said they were confident of surviving past six months of restrictions.

While the Government has since announced a phased rollback of restrictions, the immediate future is still uncertain with further restrictions and outbreaks still a possibility.

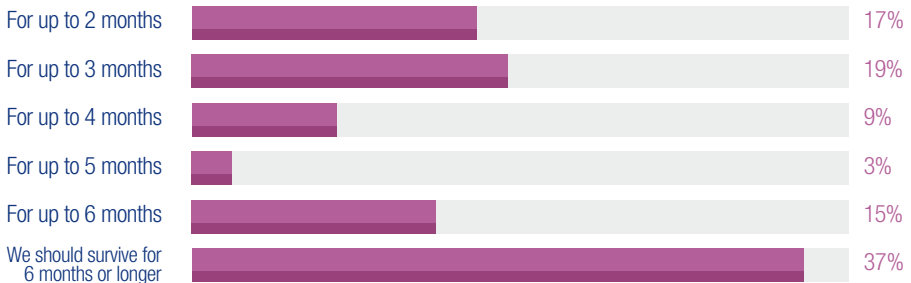
**“Without clear signs of either a recovery or a return of business leading to a viable monthly turnover, it is more than likely I will choose to close, sell off stock and assets, pay out staff entitlements and seek to leave the property lease.”**

Wholesale Trade, 1–19 employees,  
\$2m–\$5m turnover

“JobKeeper has been the game changer. If not, we would have had to let our staff go and it would have been very difficult to start up again quickly. We have survived one month on our profits; two more months would be our limit in paying all our business overheads even with staff on JobKeeper.”

Health and Community, 1–19 employees, < \$500k turnover

### How confident are you of being able to see out ongoing COVID-19 restrictions?





## SECTOR SNAPSHOT

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When we breakdown the survival responses by business turnover the picture becomes clear that micro and small businesses are the most at risk from the impact of COVID-19. This should come to no surprise when some of the hardest hit sectors have a high concentration of small business.

**52%**

**Accommodation & Food Retail  
can only survive up to 3 months**

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**50%**

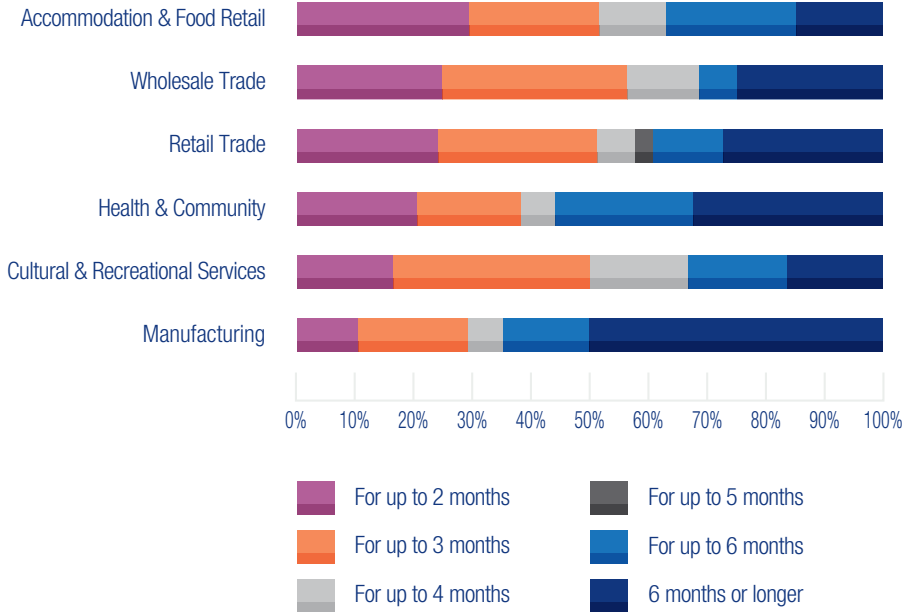
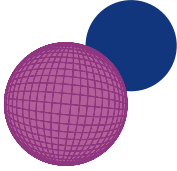
**Manufacturing can survive  
longer than 6 months**

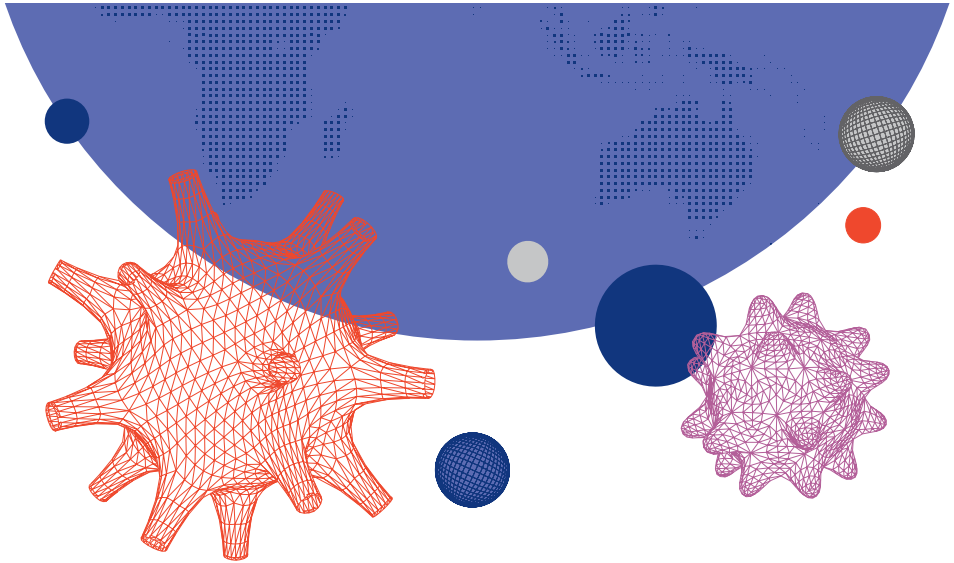
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Wholesale traders who supply food and beverage to accommodation and hospitality businesses showed the least confidence at surviving if further restrictions are put in place. While at the other end of the scale, manufacturing businesses were the most confident at outlasting restrictions.

**“I feel the longer we stay closed, the greater the impact will be on my business as customers may source elsewhere. But prefer to wait until it is safe to make sure we don’t have to have go back into lockdown, as lives are the most important.”**

Retail Trade, 1–19 employees,  
< \$500k turnover





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