



Positioning your firm for future growth
2020 Macquarie Insolvency industry pulse check

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Introduction

How are insolvency firms performing today? What challenges have they faced – and how are they adapting to meet them? And what should you be doing now to support rapid change in an uncertain environment?

To answer these and other key questions, Macquarie Business Banking undertook a wide-ranging survey of senior insolvency and restructuring industry practitioners around Australia. Building on our deep relationships across the industry, we measured firms' performance, explored their expectations, concerns and plans for the future, analysing our findings to benchmark industry best practice.

How will you respond to a changing market?

The insolvency industry has endured some interesting times in recent years. Difficult macro economic conditions, relentless regulatory change, and a contraction or hesitation in traditional sources of work in the wake of the banking royal commission have all had an impact felt across the industry.

According to ASIC, the number of registered liquidators fell 8.6% between September 2016 and September 2019, from 707 to 646.¹ Much of the decline has been attributed to additional regulatory and cost burden that has been placed on liquidators which has had a particularly large impact on sole operators. The largest firms have been affected by intensifying competition for a limited pool of opportunities, driving significant industry consolidation. Meanwhile, an increasing number of practitioners have left large or mid-tier firms to run or work in boutique practices with lower overheads and more autonomy – further accelerating pricing pressures for their competitors. Others have left the industry altogether, part of an exodus of talent that has exacerbated an already tight market for experienced staff.

Yet there is some positive news. Firms across the industry have responded positively to an evolving market, re-positioning as advisory and restructuring specialists, leveraging new technologies to drive efficiencies, and building stronger corporate cultures to attract and retain great people. Now our pulse check shows that business conditions are improving, with most firms seeing opportunities for further growth ahead.

Today, the key challenge for firms is to position themselves for what lies ahead. Over the last few years, the structural foundations of the industry have changed; so, agility will be key to enduring success. While firms that have placed a premium on people have survived, those that do so, in conjunction with adopting and embedding technology early and successfully, will prosper.

Andrew Knowles

National Head of Insolvency
Macquarie Business Bank

¹ ASIC, Australian Insolvency Statistics, Table 4.1, October 2019.

About the research

Our 2020 pulse check is based on a focused survey of 112 insolvency firms across Australia, conducted for Macquarie Bank by Fiftyfive5 in November and December 2019. It is the first study of its kind into the insolvency industry, providing a unique benchmark for firms looking to analyse their own performance and identify opportunities for growth.



Key trends

Capitalising on an improving outlook

Here are four key trends shaping the insolvency industry today:



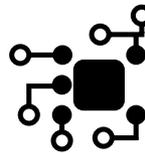
Industry and business conditions are improving

After a period of cost cutting and industry consolidation, insolvency firms have begun to bounce back. More than half saw their gross fees increase in FY2019, while an overwhelming majority believe the industry outlook is positive. These factors have brought a renewed focus on growth, with 57% of firms saying their main priority is to grow revenues or profits in 2020.



Demand for skilled staff is high and set to grow

A key challenge for firms seeking to grow is the critical shortage of skilled people, many of whom exited the industry during the recent market downturn. That has seen firm leaders exploring new ideas for attracting and retaining diverse people, with the potential to transform an industry whose management practices have often tended towards the conservative.



Technology is helping to fill the gap

Like other professional services sectors, insolvency has been increasingly impacted by technological change. Firms across the industry are beginning to harness existing and emerging technologies to increase productivity and add capacity, automating repetitive tasks to allow staff to focus on higher value activities.



Forward-thinking firms are preparing for growth

The best performing firms are preparing for growth by re-investing in their businesses and revitalising their cultures. Some of the most successful are re-positioning themselves as business turnaround specialists, at a time when these skills appear to be in increasing demand.

Financial performance

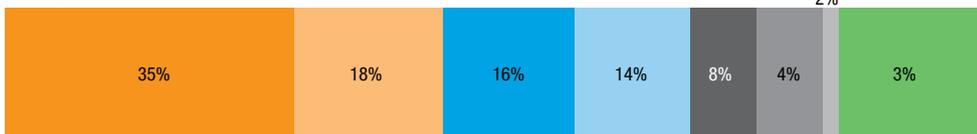
Fees and profits healthy, but room for improvement

Better business conditions for the industry saw healthy revenue growth in FY2019, with 55% of firms reporting an increase in gross fees, and only 11% reporting a decline. Profits were also healthy, with 51% of firms earning margins more than 10%. Yet there is also clearly still room for further improvement, with more than half of all firms turning over less than \$5m.

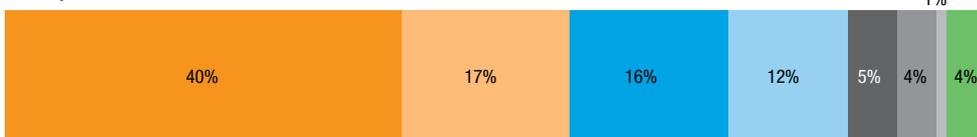
Liquidations remain the single largest source of revenue, accounting for 40% of all firm income. However, firms generally expect liquidation revenue to become slightly less important over the next few years, with business advisory work increasing in importance, albeit from a lower base. While advisory work tends to generate lower returns than formal appointments, with the shift towards this type of work, firms need to be in a position to capture to complement their formal appointments.

Revenue by source

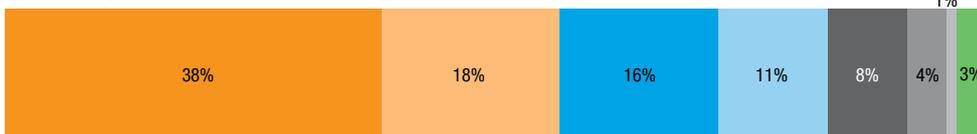
In 2 years



Today



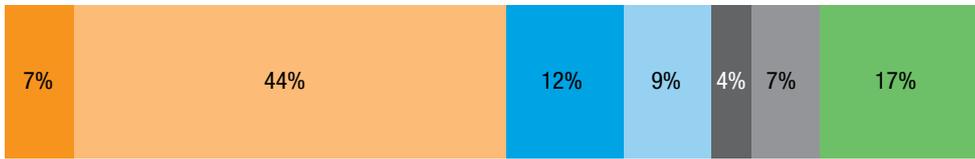
2 years ago



The trend towards revenue from informal sources has moved from **12%** two years ago, to an expectation of **17%** in two years' time.



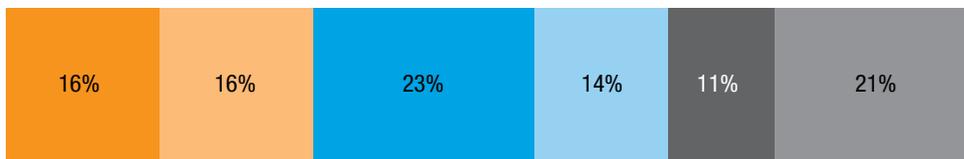
Gross fees for FY2019



- Less than \$1M
- \$1M-\$5M
- \$5M-\$10M
- \$10M-\$20M
- \$20M-\$50M
- More than \$50M
- Don't know/Prefer not to say

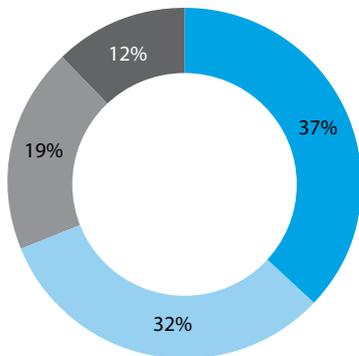
Median fee revenue:
\$3M

Gross fee growth FY2019 v prior year



- Grow more than 20%
- Grow between 11% and 20%
- Grow between 1% and 10%
- Stay the same
- Decline
- Don't Know/Prefer not to say

FY2019 profit margin



- Don't know/prefer not to say
- More than 20%
- Between 11% and 20%
- Between 1% and 10%

Challenges

Competitive pressures and staffing issues dominate

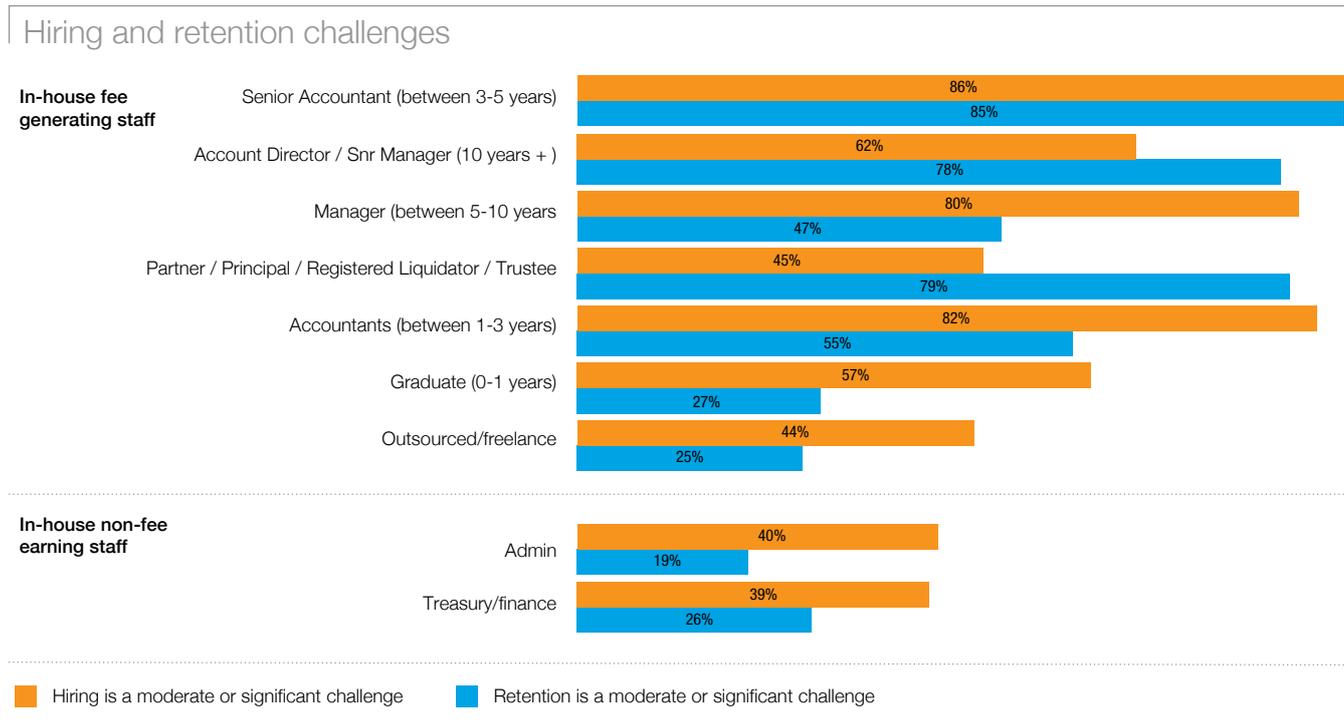
While the dial has shifted to growth, challenges remain. A subdued market has seen competition intensify, creating ongoing pricing pressures, cited as a challenge by 83% of firms and a significant challenge by 31%.

Yet the largest challenge continues to be unscrupulous and unregulated pre-insolvency advisers who, in the words of a recent ARITA report, “claim to be able to remove the worry of a dire financial situation, but ... often encourage unlawful conduct such as hiding or stripping assets and illegal phoenixing.”

89% of practitioners cited pre-insolvency advisers as a challenge, with 52% citing them as a significant challenge. As well as the damage it causes to the profession from a public relations perspective, it prevents or delays business engaging with insolvency and restructuring practitioners, who have the skills and expertise to derive a better business outcome for the business and/or creditors.

Attracting and retaining talented staff has also become more challenging as the market recovers, with 86% of firms facing hiring challenges, and 83% facing issues with retention.

Senior accountants are in particularly high demand, both because of the role they play in managing client files and generating profits, and because they often carry the cultural torch ongoing for the firm. Additionally, senior accountants can be autonomous, and carry a lot of the practical load of client work.

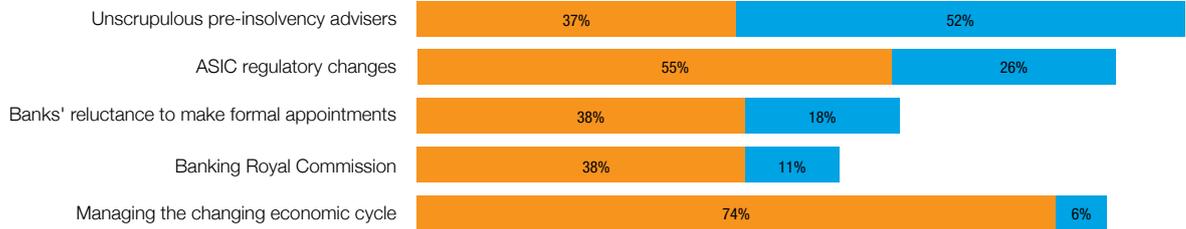


Challenges facing the industry

External forces

65%

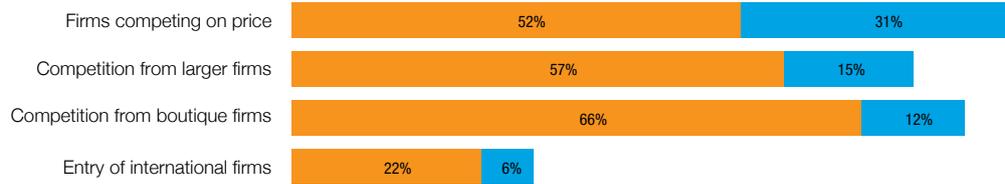
Net significant challenge



Competition

38%

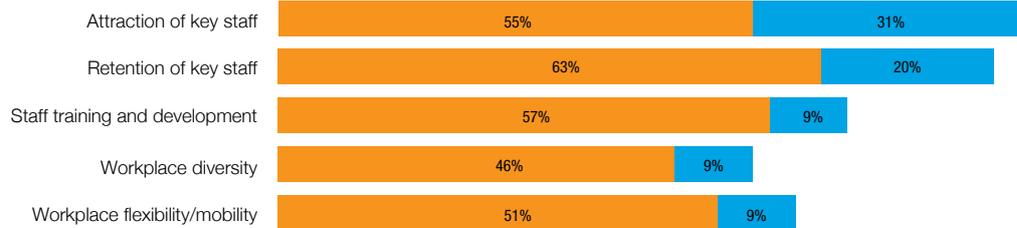
Net significant challenge



People

35%

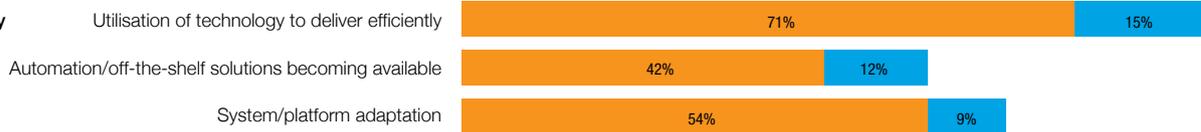
Net significant challenge



Technology

17%

Net significant challenge



■ Moderate challenge
 ■ Significant challenge

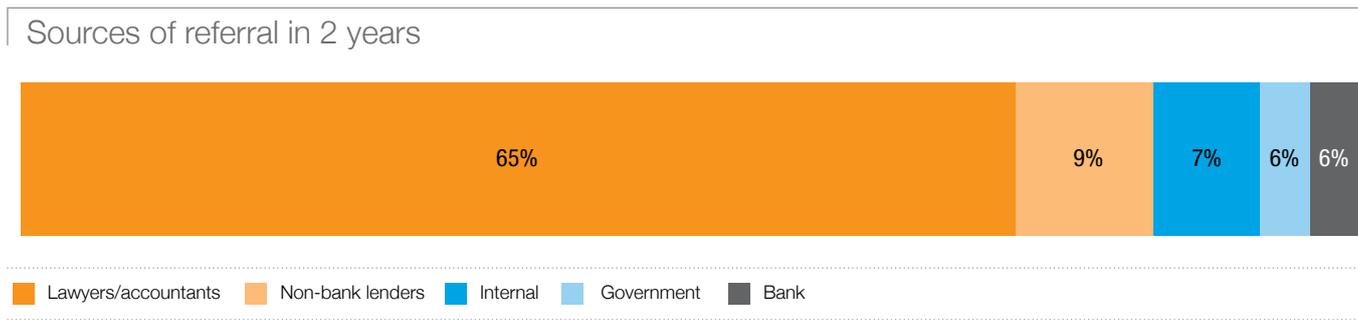
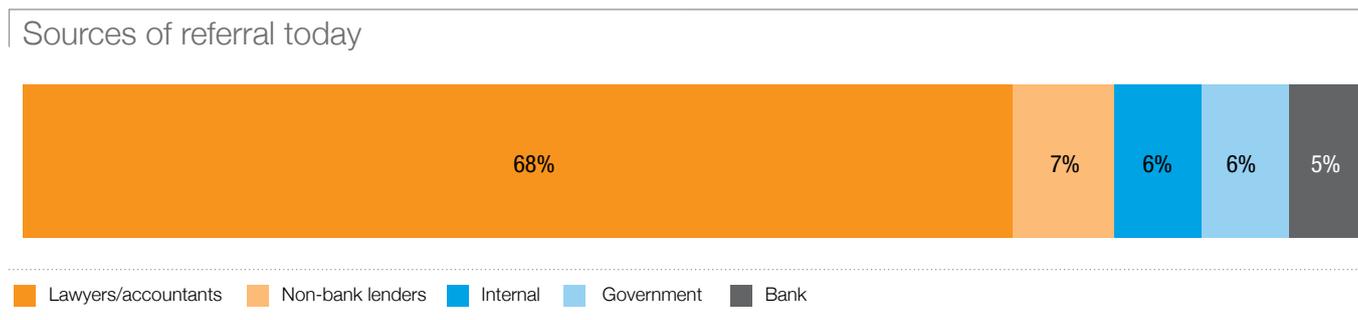
Opportunities

Adapting to an evolving market

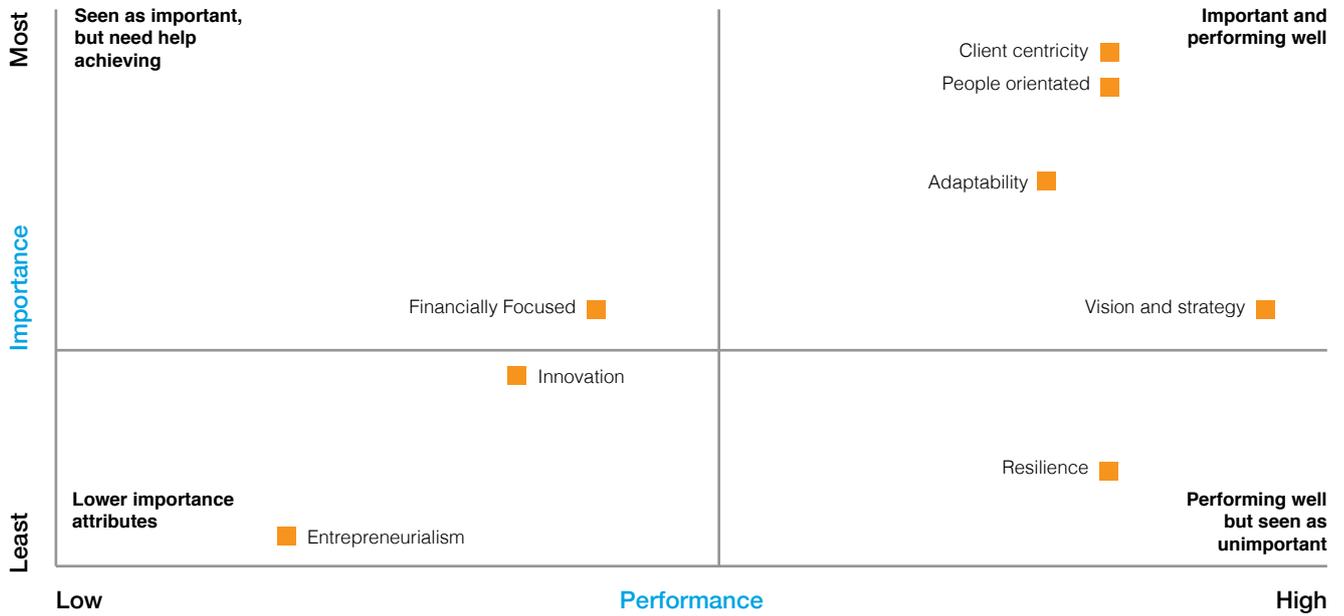
As specialists in helping businesses navigate change, insolvency practitioners are generally well positioned to respond to the challenges of an evolving market. When asked which attributes are important to success and how they perform on each attribute, respondents generally score their firms highly for the most important, with three in four rating themselves as strong or very strong for vision and strategy, client-centricity and adaptability.

In contrast, financial focus remains a potential area for improvement. Firms also tend to rate innovation and entrepreneurialism as relatively unimportant – reflecting a highly regulated industry with limited scope to generate new work or approaches to doing work, but also suggesting firms could become more active in embracing change.

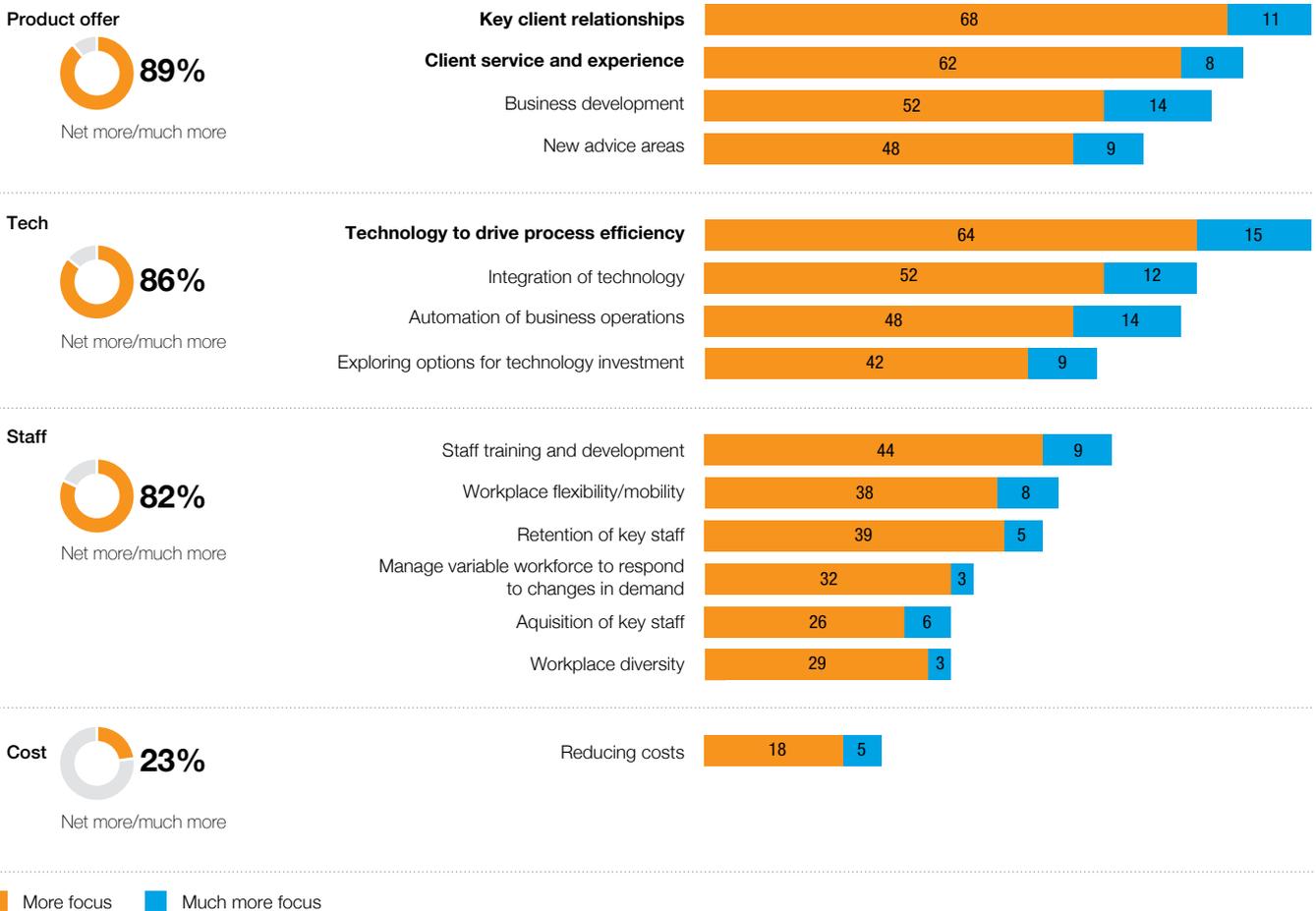
Asked about their key priorities for the year ahead, firms are most likely to say they intend to focus more or much more on key client relationships (79%) and on technology to drive process efficiency (79%). However, almost two in three (65%) plan to prioritise business development, while 58% say they will introduce new advice areas – further indications of an improving market offering opportunities for growth.



Key attributes for success: current performance versus perceived importance



Focus areas for the next 12 months



Technology

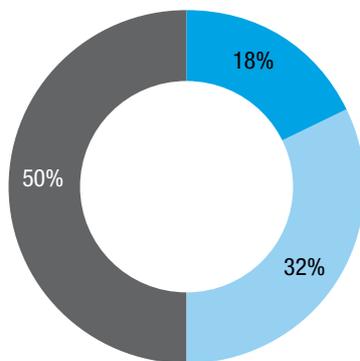
Building capacity and driving efficiency

Our pulse check highlights the importance of new technologies as an enabler of future growth, as firms build capacity to capture new opportunities. 82% of respondents say technology affects a firm's ability to add scale, while one in three say it has a significant impact.

Nonetheless, technology adoption across the industry has so far been relatively limited, driven by industry conservatism, hesitation to change, lower recent historical revenues, and no evidence of industry peers leading the way. Much of the focus to date has been on efficiency-enhancing technologies, including document management and scanning tools (currently used by 62% of firms), workflow tools (55%), and knowledge management tools (52%). Yet there is still significant scope for firms to automate repetitive tasks and free key staff to focus on client service, not data management. Notably, fewer than one in four firms (23%) use accounts automation tools (for example, integrating online banking with customer relationship management (CRM) tools to streamline invoicing and account management).

Even fewer firms have taken the next step by harnessing data to improve the client experience and make more informed strategic decisions. To implement best practice, firms could do well to look beyond insolvency to other professional services sectors who have moved further along the adoption curve, integrating data analytics and predictive systems into day-to-day processes.

Impact of technology on firm's ability to upscale



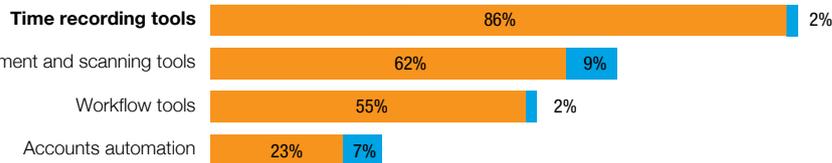
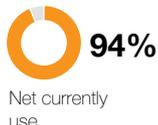
■ No/minimal impact ■ Significant impact
■ Moderate impact

82% of firms feel the technology will have at least some impact on firm's ability to upscale

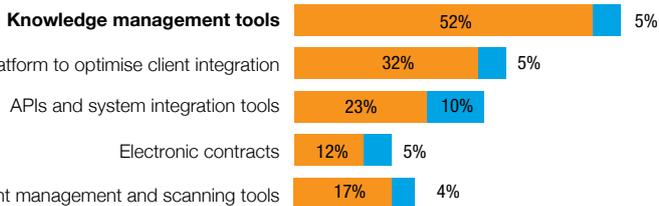
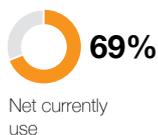
Technology use within the business

NET currently use (%)

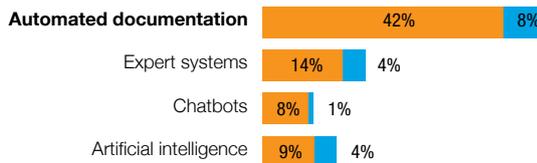
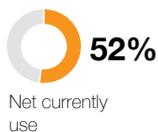
Back office automation



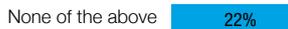
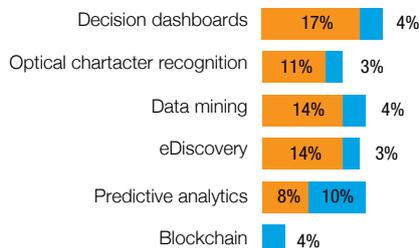
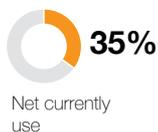
Management and system integration



Artificial intelligence



Data analytics



Currently use Next 2 years

5 Average number of technologies used

People

Finding new strategies to attract skilled people

As with other industries, staffing remains a central challenge, especially as firms seek to expand. 36% of firms plan to hire senior accountants in the next 12 months, while 21% plan to recruit graduates, driven by expansion views, and the talent drain of more senior resources. Across the industry, firms plan to increase senior accountant numbers by more than 50%, from an average of 5 per firm to an average of 7.7.

The issue has been exacerbated by a loss of talent in the industry during the contraction of the last few years, with 61% of firms saying they have lost staff to other sectors. Asked why staff have left, firms name a range of factors. While better remuneration is cited as the most common (29%), workplace flexibility (14%) and team culture (10%) also significant. Almost one in three are unsure or prefer not to say.

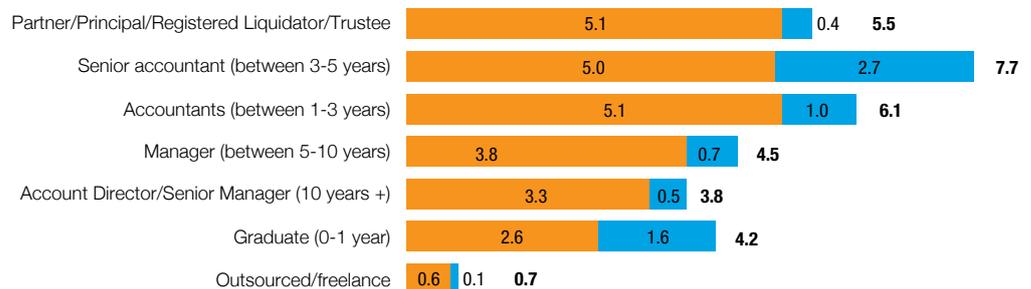
Firms are responding positively to the staffing challenge, with a focus on creating a strong team culture, supported by ongoing development and mentoring. Around two in three firms also plan to encourage greater flexibility, while adopting new technologies to simplify tasks and enable flexible working.

Technology use within the business

NET currently employed (average)

In-house fee generating staff

26



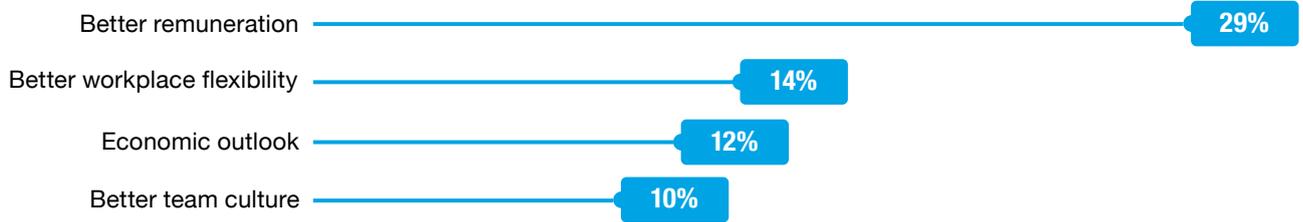
In-house non-fee generating staff

3.5

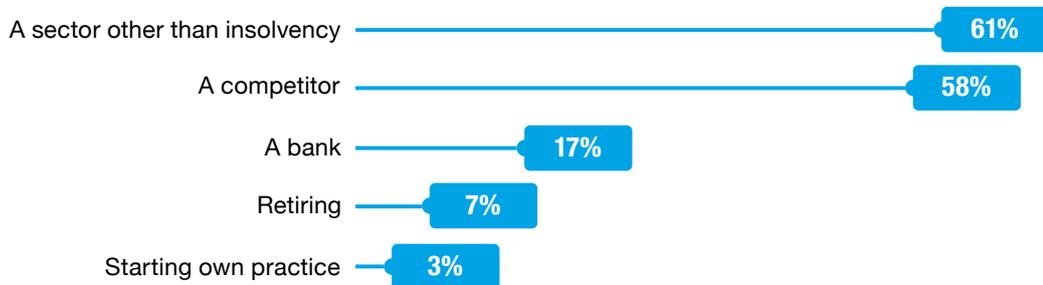


Currently employed Intend to hire (next 12 months)

Staff reasons for leaving



Where staff have moved



Strategies for attracting and retaining staff



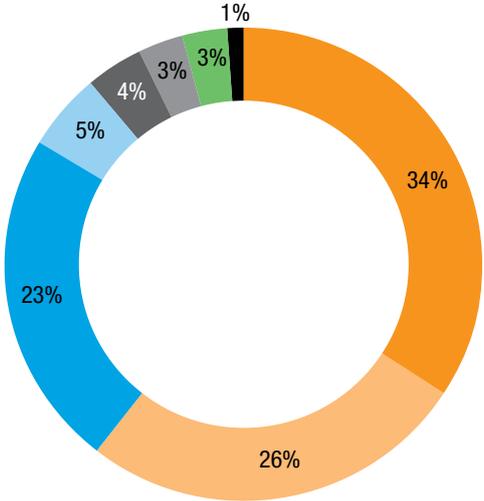
Industry outlook

Better times ahead

Looking to the future, an overwhelming majority of firms expect the improved conditions to continue, with 67% describing the industry outlook as positive or very positive – the most optimistic response in any of the professions we have surveyed. At a time when all professional services sectors are under pressure, that suggests insolvency firms have weathered difficult conditions better than many of their peers, and emerged ready to respond to a changing market. 90% of firms say they respond to change well or very well, a higher rate than almost any other profession.

Asked about their strategic priorities for the future, most firms reveal a strong mindset for growth, with 34% planning to capture new business and grow revenue, and 23% planning to grow profit. Only 5% intend to pursue a merger or acquisition, suggesting that most firm leaders see opportunities for organic growth, without the need to purchase additional scale.

Strategic priorities



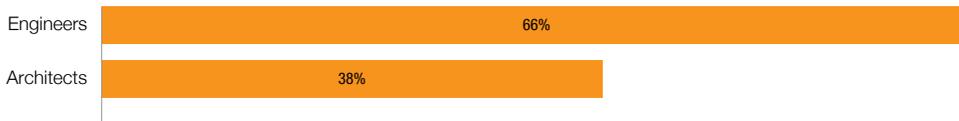
- Grow revenue
- Maintain current business
- Grow profit
- Merge or acquire
- Exit or pass the business on
- Sell
- Reduce costs
- Other

Industry outlook



Very positive Positive Neutral Negative Very negative

Outlook in other industries - net of very positive and positive



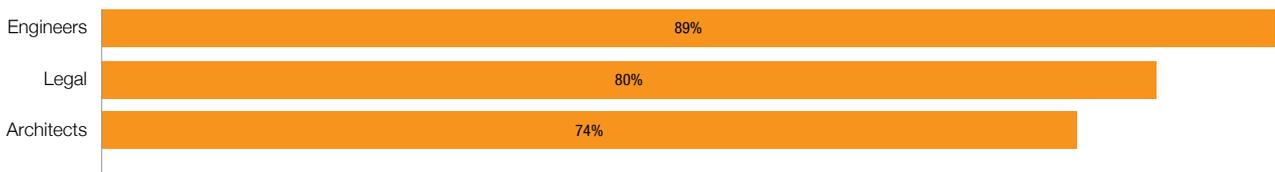
Source: Macquarie 2019 Built Environment pulse check report

Ability to respond to change



Very well Well Unsure Poorly Very poorly

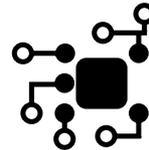
Ability to respond to change in other industries - net of very positive and positive



Source: Macquarie 2019 Legal and Built Environment pulse check reports

Positioning your firm for growth

Based on Survey results, these steps may help you take advantage of improving business conditions



Business offering

- Re-examine and refresh your value proposition to position your firm as financial recovery and change management advisers.
- Educate potential clients about your role as advisory and restructuring experts, and the value of seeking advice as early as possible
- Establish your firm as a thought leader by showcasing your expertise to current and potential clients

People

- Build your profile and create a strong team culture to attract and retain staff
- Boost staff retention by focusing on the employee experience
- Foster flexibility and diversity
- Look to develop and retain existing staff, rather than being forced to seek expensive new hires in a highly competitive market

Technology and operations

- Look beyond the insolvency industry to benchmark your technology use against other professional services sectors
- Analyse your processes to identify repeated manual activities that can be automated or outsourced
- Ensure that your technology solutions are aligned with your long-term strategy as well as your current needs

Talk to us

For a closer look at how your business is performing against key industry benchmarks, please contact your Macquarie Relationship Manager, visit macquarie.com.au/business-banking/insolvency-industry or call 1800 442 370.

Important legal notice

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