



People & Community Series | Produced by Cotton Catchment Communities CRC

The Impact of Drought on Small Business – A Pilot study on Wee Waa

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Key Findings

Overall the study found the continuing drought has had an impact on the community of Wee Waa. This impact has been felt by many sectors including local businesses, schools and health organisations. Despite this, the community is already looking at positive and achievable options that can improve the well being of Wee Waa.

Business Impacts

The 2007 study of the drought on small business in Wee Waa found:

- The gross turnover of the combined business surveyed (25 respondents) fell by 52% from 2001 levels of \$116 million to \$56 million;
- Permanent staff numbers fell 60% between 2004 and 2007 and Casual employment fell 40%;
- The main type of staff positions terminated were Professionals, however positions have been cut across all jobs;
- Of the terminated employees; 2/3 have left the region and the remaining 1/3 are either working locally or are unknown;
- 60% of businesses have downsized as a result of the drought. The majority of these businesses had downsized by at least 50%;
- 95% of businesses had a 60% or greater reliance on a healthy agricultural and cotton industry;
- Reduced access to surface and groundwater for irrigation was the biggest



factor other than drought impacting on business;

- Approximately 40% of businesses surveyed accessed support services. Government assistance packages were one of the most accessed support services, however more than half who accessed these services did not find them useful;

Social/Community Impacts

- Combined Wee Waa Primary and Secondary school numbers declined by a total of 128 students (21%) between 2001 and 2007;
- There is less capacity for the community and business to donate time, resources and funding essential to the viability of schools;
- There has been a doubling in the number of people accessing health support/counselling due to the drought;
- Health organizations were producing more information packages specifically for rural communities on mental health issues such as depression.



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Introduction

The current drought is generally regarded as the worst drought seen in over 100 years with some areas looking at their seventh consecutive year of drought.

The purpose of this study was to quantify the impact of the drought on Wee Waa small businesses, update the information collected in a similar survey undertaken of small business in Wee Waa in 2004 (Roth and Drew, 2004) and capture additional information about the impact of the drought on rural community issues such as health and education.

The 2004 survey found that between 2001 and 2004, 50% of businesses had downsized as a result of the drought. Employment levels fell with Permanent staff decreasing by 69% and Casual staff by 52%, a third of which were believed to have left the region. Strategies used by businesses to redress the impact of drought focused on minimizing costs, primarily overheads and staff. Approximately 79% of businesses had not accessed any support services. Wee Waa combined primary school numbers declined by 15% (57 students).

Background

Figure 1 shows the impact of the drought on the gross value of cotton production in Australia.

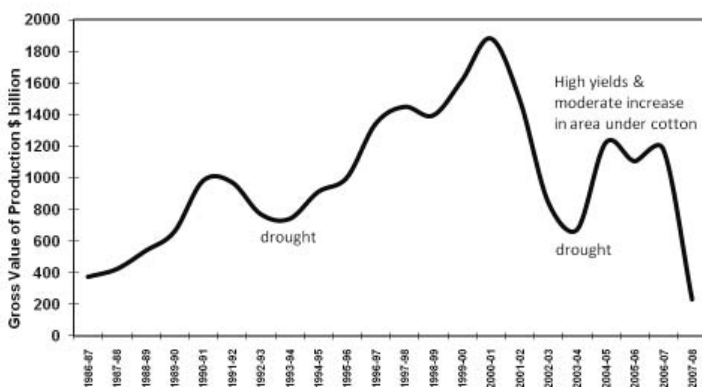


Figure 1: Impact of the drought on gross value of cotton production in Australia

The gross value of cotton production has increased steadily since 1986-87 and peaked at \$1.9 billion in 2000/01.

More recently gross value has declined by over 50% dropping from 1.2 billion in 2005/2006, to \$520 million in 2006/2007. The gross value of production for the current cotton season 2007/2008 is expected to be \$250 million. The national impact of the drought on cotton production is also reflected in the Lower Namoi Valley (Figure 2).

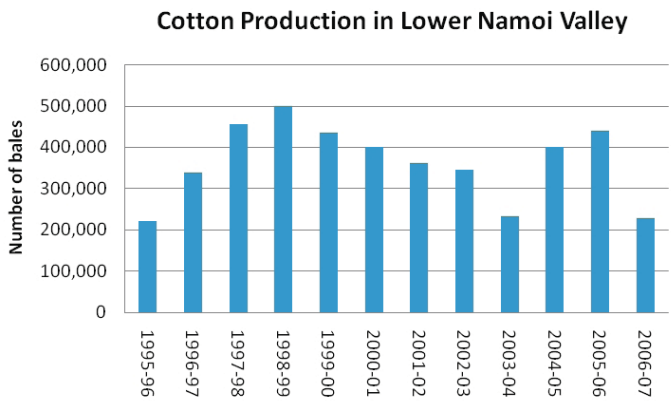


Figure 2: Impact of drought on cotton production in the Lower Namoi Valley

Survey Methodology

During October 2007 a sample of Wee Waa businesses were questioned in regard to the impact of the current drought on their business. These questionnaires were distributed via email and a door-drop and 25 responses were received.

Provision of answers to the questionnaire was voluntary and the data is not presented in a way that allows identification of individual businesses surveyed. Not all responses to all questions are presented due to ambiguous or inappropriate comments and nil or low number of answers. Figures reported are a percentage of the number of responses received for any given question.

Community impact information was obtained via questionnaire and verbal communication with the principals from each school and representatives of health organizations.

A variety of different types of small businesses were surveyed ranging from the main street retail type shops through to food, fuel, agricultural supplies, industrial companies and service companies.

Survey Results

Business Impacts

Figure 3 shows that one of the greatest impacts of the continuing drought has been on the gross turnover of local businesses. Of the 25 businesses surveyed, gross turnover fell by 52% from 2001 levels of \$116 million to \$56 million.

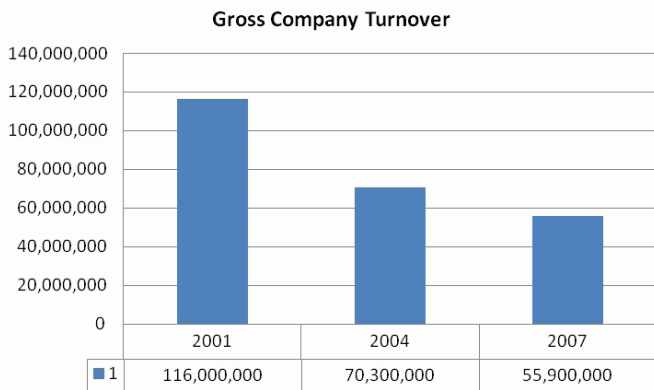


Figure 3: Total Gross Company Turnover for surveyed Wee Waa businesses.

The survey also found that 60% of businesses have downsized as a result of the drought with the majority of these businesses downsizing by at least 50%. Professional positions seem to have borne the brunt of the employment reductions (Figure 4). This may be seen as a reflection of the high percentage of businesses which have restructured with managerial positions being rationalized.

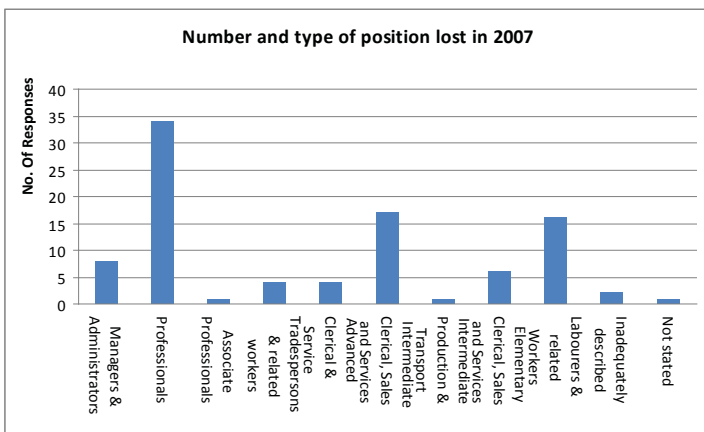


Figure 4 : Number and type of positions terminated

Of the terminated employees; 2/3 left the region and the remaining 1/3 are either working locally or are unknown (Figure 5).

Most respondents thought that the drought had a 50% or greater impact on their subsequent business decision to restructure. Reduced



Figure 5: Fate of terminated employees

irrigator access to surface and groundwater, increased input costs/tighter margins and the general downturn in consumer spending were seen as other significant factors impacting on business. A couple of businesses felt that this had had a greater impact on their decision to downsize than the drought.

Wee Waa businesses prepared for the drought by managing costs, reducing or rationalizing staff and working with their banks. During the drought the main physical management strategies undertaken were to reduce spending, not replace staff that resigned and reduce stock. Financial risk management strategies undertaken included better cash flow management, tighter debtor control and reduced expenditure.

Only about half of the businesses surveyed accessed any financial or health support as a result of the drought. One of the most accessed services was 'government drought assistance packages' however over 50% of businesses who accessed this service did not find it useful (Figure 6). One business commented that drought relief seemed to offer no benefit to well run businesses that were doing it tough.

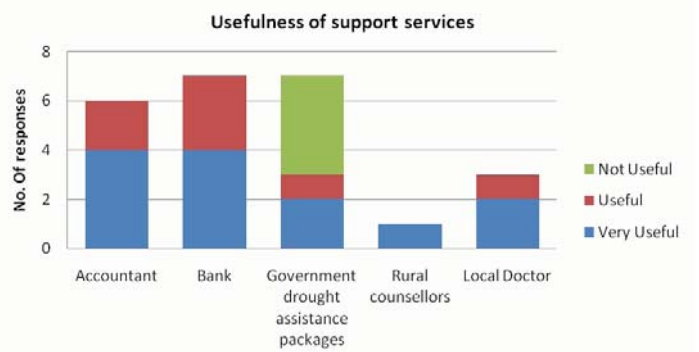


Figure 6: Usefulness of support services accessed by Wee Waa businesses

Community/Social Impacts

Since the drought there has been a 100% increase in the number of people accessing counselling and mental health services.

Additional impacts recorded were increased stress placed on families who were dealing with family members who had depression, and difficulty in affording medical care such as medications and medical investigations/procedures.

As a result of the 21% decline in student numbers across the Primary and Secondary schools there has been a loss of nine teachers. Most schools also recorded a decrease in the number and hours of non-teaching staff such as clerical, administration, cleaners and grounds keepers.

A number of schools have had to reduce the amount of extra curricular activities and excursions offered to students. This was due to their numbers having dropped below required numbers for activities and/or they didn't want to place extra financial burden on families. One school commented that there had been an increase in the number of students accessing student financial assistance.



Implications for Future Business Positioning

Once the drought breaks, 80% of respondents indicated they would return to their pre-drought staffing levels.

Strategies to redress the impact of drought on their business focused on minimizing costs, reducing and/or rationalizing staff

and having tighter control/management on cash flow and bad debt.

Closer financial management control, debtor control and diversifying business interests were the main strategy companies indicated they would employ in the next drought. Four of the respondents felt they were already doing everything they could and would not change any of their current strategies.

Future research benefits to business and community were seen to be mainly in the areas of best practice in water-use efficiency and investigations into community and social impacts of the drought.

Management Strategies for Drought

The 2007 survey found that businesses were adopting a number of strategies to help them manage their business during the drought. This includes:

- Tight inventory control and business spending;
- Financial control – reduced expenditure, tighter cash flow management and debtor control;
- Maintain good communication with banker;
- Diversify business;
- Tighter control of human resource liabilities and flexible options for management.

Future Research

The Cotton CRC is undertaking further community based research. We would be interested in hearing any suggestions from the community. A full copy of this report can be obtained by contacting the Cotton Catchment Communities CRC.

Phone 02 6799 1500

Website: www.cottoncrc.org.au