

Intuit study finds financial literacy a key challenge for small business owners

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Friday, 12 June 2015
Last Updated Friday, 12 June 2015

According to one estimate, one in four businesses shut their door within a year of starting up in Australia. An Intuit study points out that 32% of the businesses fail because of financial mismanagement while another 12% fail due to inaccurate or inadequate records. In its latest study, the popular financial and tax preparation software company surveyed entrepreneurs on their "financial fitness". Not surprisingly, while 63% of the baby boomers passed the survey, more than 74% of the Gen Y respondents (18 to 34 year olds) failed the test. Among Gen X (35 to 49 year old), 44% of the respondents passed the test.

There are several interesting takeaways from the study. Among business owners who did not pass the test, nearly 51% of them still prepare their own BAS (Business Activity Statements) and handle their own financial records. Among entrepreneurs who believe their records are "well managed", only 36% of them have an accountant or bookkeeper to handle the financial records. 35% of baby boomers have an accountant to take care of records as compared to 26% of Gen X and Gen Y business owners.

According to Jay Barnett, a small business owner and the founder of Perth based Priority Floor Care, one of the more obvious reasons why baby boomers have out-performed the younger entrepreneurs in financial literacy is because of being in operation for a longer period of time. He notes that financial literacy is gained through experience and baby boomers, on account of having played the game longer are better adapted to the challenges of running a business compared to Gen X and Gen Y businessmen.

There is however a silver lining for younger entrepreneurs. Technology has helped these new age entrepreneurs close the gap with the older population on financial literacy faster through online tutorials and financial management courses. According to the Intuit survey, 16% of Gen Y entrepreneurs use online tutorials to get financially fit as compared to 6% of baby boomers. Getting hold of a mentor has been reported to be the most popular option however with close to 19% of entrepreneurs relying on them for support.

When it comes to software and tools to record their financials, the small business owners who were surveyed by Intuit were found to be still grossly reliant on older technologies and processes. 42% of the respondents used spreadsheets to maintain records while 22% of them still used pen, paper and ledgers to record their finances. Just 9% of the surveyed entrepreneurs were found to be using cloud based financial software services.

Does this cost businesses in any way? The study found that most startup owners pay themselves at least one-third lower than the national average in pre-tax income. The average weekly earnings for these business owners was found to be around \$1476 a week, not too high compared to the national minimum wage which is \$641.

Financial literacy plays a big part in how long small business owners can hold on until they turn profitable. The Intuit study is a stark reflection of ground realities and offers a solution for possible solutions to the cash flow problems so often experienced by young business owners.