scottish pacific
BUSINESS FINANCE

March 2019

SME GROWTH INDEX

east&partners

Contents

SME Growth Index: Twice a year, independent research is undertaken by leading business banking market research firm East & Partners, on behalf of Scottish Pacific Business Finance. The March 2019 round surveyed and interviewed the owners, CEOs or senior financial staff of 1257 SMEs across a range of industries and all states, with annual revenues of $A1-20 million. Percentages apart from revenue growth percentages are rounded to the nearest half percent.

Executive Summary

Round Ten of our *SME Growth Index* reveals improving SME revenue growth sentiment for the first half of 2019, with a three year high of just over 53% of SMEs expecting to grow.

This is despite factors such as some broader economic markers and the property market outlook, the post-Royal Commission into Banking environment and the uncertainty that always comes in the lead-up to a Federal Election.

Twice a year, this independent research is undertaken on our behalf by East & Partners, who poll a representative cross-section of 1,257 SME owners, CEOs or senior finance staff across the country.

Two findings stand out to me this round.

Nine out of 10 SMEs would 'definitely' or 'probably' accept a higher interest rate if it meant they were not required to provide real estate security.

The number of SMEs who would 'definitely' be prepared to pay more to avoid providing real estate security has more than doubled in the past few years, rising from 29.5% to 65%.

Only 2.5% of business owners would prefer to provide real estate security rather than pay a higher rate over the life of their loan.

The message around property-secured lending is loud and clear: eight out of 10 business owners say they resent providing property as a security against new loans or as part of loan serviceability assessments.

Alongside this finding, for the first time SMEs are about as likely to turn to an alternative lender as they are to ask their main bank to fund growth.

Traditionally 'rusted on' to the banks, business owners are becoming increasingly open to non-bank alternatives to fund operational and strategic growth needs.

East & Partners predicts that, if current trends continue, by the second half of 2020 alternative lenders will overtake primary relationship banks as the key funders of new SME business investment in Australia.

Regardless of any long-term financial services regulatory changes which may flow from the Royal Commission, our research highlights that in the short-term SMEs are already seeing an impact on their access to funding.

Over half of all SME respondents say the Royal Commission has made it harder, or will make it harder, for them to access business funds.

This round, we also looked at what frustrates SMEs about seeking finance.

Only one in 10 business owners had no funding frustrations. For the rest, onerous loan conditions and lack of flexibility were the major concerns.

For Australia's small and medium enterprise sector, nothing is more damaging to business confidence and revenue forecasts than uncertainty and instability. Business owners are looking for ease of finance (and say they are willing to pay a higher price for it).

Yet the combination of a post-Royal Commission environment and an uncertain property market will make it harder for banks to provide this ease of funding and harder for many business owners to put up their property as collateral. They will need to look beyond the banks.

It makes for an interesting 2019 for the SME finance sector.

Peter Langham
Chief Executive Officer
Scottish Pacific
Business Finance

Insight 1

Property downturn bites business owners

Current property market conditions are clearly having an impact on business owners.

Almost half the SMEs (44.5%) say property market conditions are already making it harder for them to access business funding, likely due to softening house prices in major markets.

A further 35% haven't yet felt the impact, but fully expect the housing price correction and broader property market conditions including slowing loan approvals will have a significant impact on their borrowing capacity.

When property market impact was last assessed in September 2017, three out of four SMEs said property prices were having no direct impact on their businesses. This round, only one in five SMEs said they had not yet seen a direct impact.

This minority of non-affected SMEs perhaps reflects how broad the base of Australia's small business sector is, with more than two million enterprises across a wide range of industries and regional markets.

Property prices are having more impact on SMEs in Victoria and NSW (affecting 48% and 46% respectively), with Queensland small businesses (39%) the most buffered.

Declining or no-change SMEs are being hit harder by property market movements, with 54% of non-growth SMEs already impacted (compared to 36% of growth SMEs).

Declining or no-change SMEs are being hit harder by property market movements, with 54% of non-growth SMEs already impacted

For these non-growth SMEs, finances are already stretched thin and they are feeling "when it rains it pours". These are the businesses that currently need the most support to get through tough market conditions.

SMEs willing to pay more to avoid property security

More than 91% of SMEs would be prepared to pay a higher rate to obtain finance if they didn't have to provide real estate security. This overwhelming sentiment is voiced at a time when a sharp correction in residential property prices is affecting capital cities, coupled with falling building approval data and predictions by analysts such as Core Logic and UBS of tough market conditions still to come.

Of the nine out of 10 business owners who say they would be willing to pay a higher rate for finance if they could avoid using property as security, almost two-thirds (65%) indicated they 'definitely' would be willing, and more than a quarter (26%) said 'probably'.

Fewer than 1% of SMEs 'definitely' would not consider higher rates in place of borrowing against the family home, and just over 1.5% said it would be 'unlikely'.

According to the Productivity Commission's draft report into Australian financial system competition, a third to a half of Australian SME loan value is reliant on property security.

For the major banks, 35% of their small business lending (by loan value) is secured by real estate. For banks outside the majors this figure is higher, at almost 47%.

Given this data, and the Growth Index's clear findings about SMEs' unhappiness about using property security, it could be that many business owners are unaware they can use balance sheet assets instead of property - assets including equipment and invoices issued.

Property security one of top two SME frustrations

Annoyance about having to provide property as security was clear amongst SMEs – this was the second most common funding frustration (nominated by more than 78%), behind only loan conditions (just over 80%).

To this environment, add likely changes implemented due to the Royal Commission, and the impact of more stringent credit checks. SMEs looking to fund growth will have to factor in potential roadblocks around finance availability and using property as security.

The added impact of home borrowers potentially being charged fees to use a mortgage broker could also result in a major reshuffle when it comes to how small business owners manage their business growth *(see Insight 2)*.

Australian Bureau of Statistics data shows a more than 6% drop in home loans in December 2018, with a fall of about 20% for 2018 (the worst annual fall since the Global Financial Crisis).

While property prices and some market conditions are cyclical, it's important to note Australia's long-term downtrend in the rate of home ownership.

A not-too-distant future where there may be more entrepreneurs renting than buying means that increasingly business owners will have to consider business borrowing secured against assets other than property.

More stringent lending conditions, along with a cooling property market, will impact on SME owners who need to use their home as security against their business borrowing.

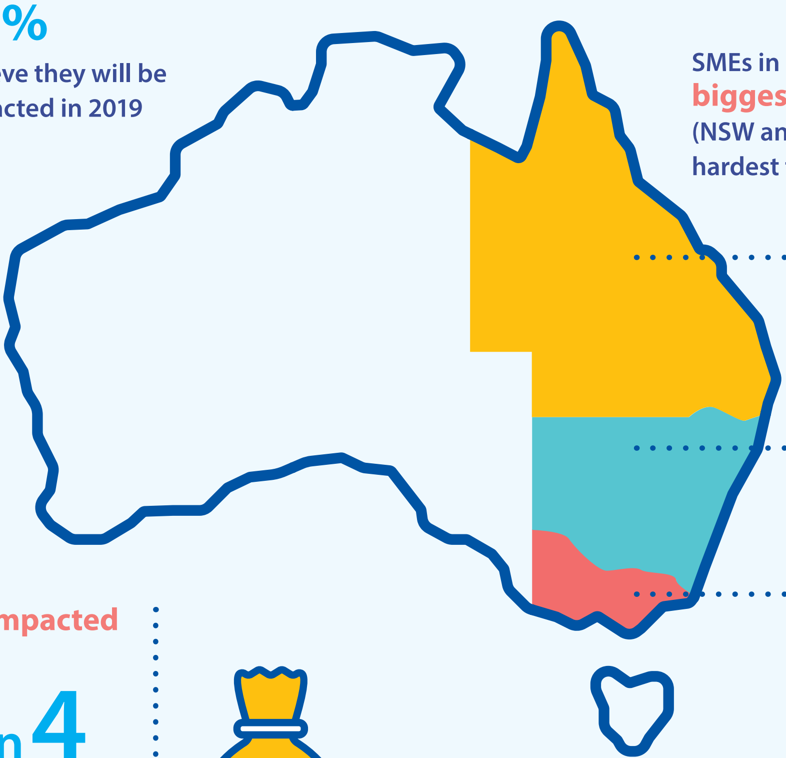
For any business owner who feels compelled to rely on providing property as security for their business loans, the credit squeeze may well be on.

Impact of property market on SME funding

8 in 10 feel the impact

45% Impacted in 2018

35% Believe they will be impacted in 2019



SMEs in the states experiencing **biggest** property downturn (NSW and VIC) are finding it hardest to access funding:

39% Queensland (least affected)

46% NSW

48% Victoria

SMEs who are NOT **impacted** by property prices

2017… **3 in 4**

2019… **1 in 4**

91% of business owners would pay a **higher price** for finance without property security

Insight 2

SMEs outline impact of Royal Commission

The anxiety and concern of the SME sector is evident. More than half the SMEs polled (56%) say the Banking Royal Commission has made, or will make, it harder for them to access business funding.

One in five (22%) SMEs said it was already harder in 2018 for them to access funds due to the lending environment created by revelations highlighted at the Royal Commission hearings.

Almost 34% expect this lending environment will soon have a negative impact on their access to funding.

Only 12% said the Royal Commission had made no impact on their access to finance.

Based on these sentiments, many SMEs fear a 'credit crunch'.

Negative public sentiment surrounding the banks as a result of the Royal Commission may be reflected in the funding frustrations data. Almost half of SMEs say they are frustrated by their funder being hard to deal with, and a quarter don't feel secure with their lender *(see Insight 5)*.

The current financial and political environment makes it important for SME owners to ensure they find the right finance terms and the right security to suit their business.

How they make these important funding decisions may change, given one of the more hotly debated recommendations of the Royal Commission – removing brokers' trail commission for home loans.

While the Royal Commission's focus was on residential mortgage lending, one concern is that if changes are introduced that make the mortgage broking industry unviable, this will flow through to the commercial finance broking sector which plays a crucial role in helping SMEs secure business funding.

It is advisers such as brokers and accountants who have an intimate understanding of their clients' businesses and can help small businesses tailor the best funding option by making them aware of how the different products work and what the risks and benefits are.

Any threat to the livelihood of essentially 20,000 small businesses – brokers - would have a negative impact on the SME sector.

With the Productivity Commission supporting a solution that retains a commercially viable broker sector, and the Prime Minister and now the Federal Opposition speaking out in support of brokers, it is hoped that the solution to the trailing commission issue raised in the Royal Commission is one that does not hurt the SME sector.

Based on these sentiments, many SMEs fear a 'credit crunch'

Broker industry associations fear that if a fee for service model is borne by the consumer, this is likely to decrease competition and potentially drive borrowers straight back to the big banks.

Adding a broker fee for service could have a detrimental impact on any SME already unable to get bank funding. Brokers put non-bank lending alternatives to their clients, providing viable solutions for business owners when the banks can't or won't lend to them.

With a Federal Election on the horizon, it remains to be seen whether all the recommendations made by Commissioner Hayne will be introduced, or whether there will be compromises made on some of the more hotly debated issues, such as broker remuneration.

Anecdotally, in the first quarter of 2019 a range of alternative lenders have reported increased interest in their offerings, with funding enquiries showing that small enterprises and even medium sized businesses are saying that in the wake of the Royal Commission, bank funding has become even harder to get.

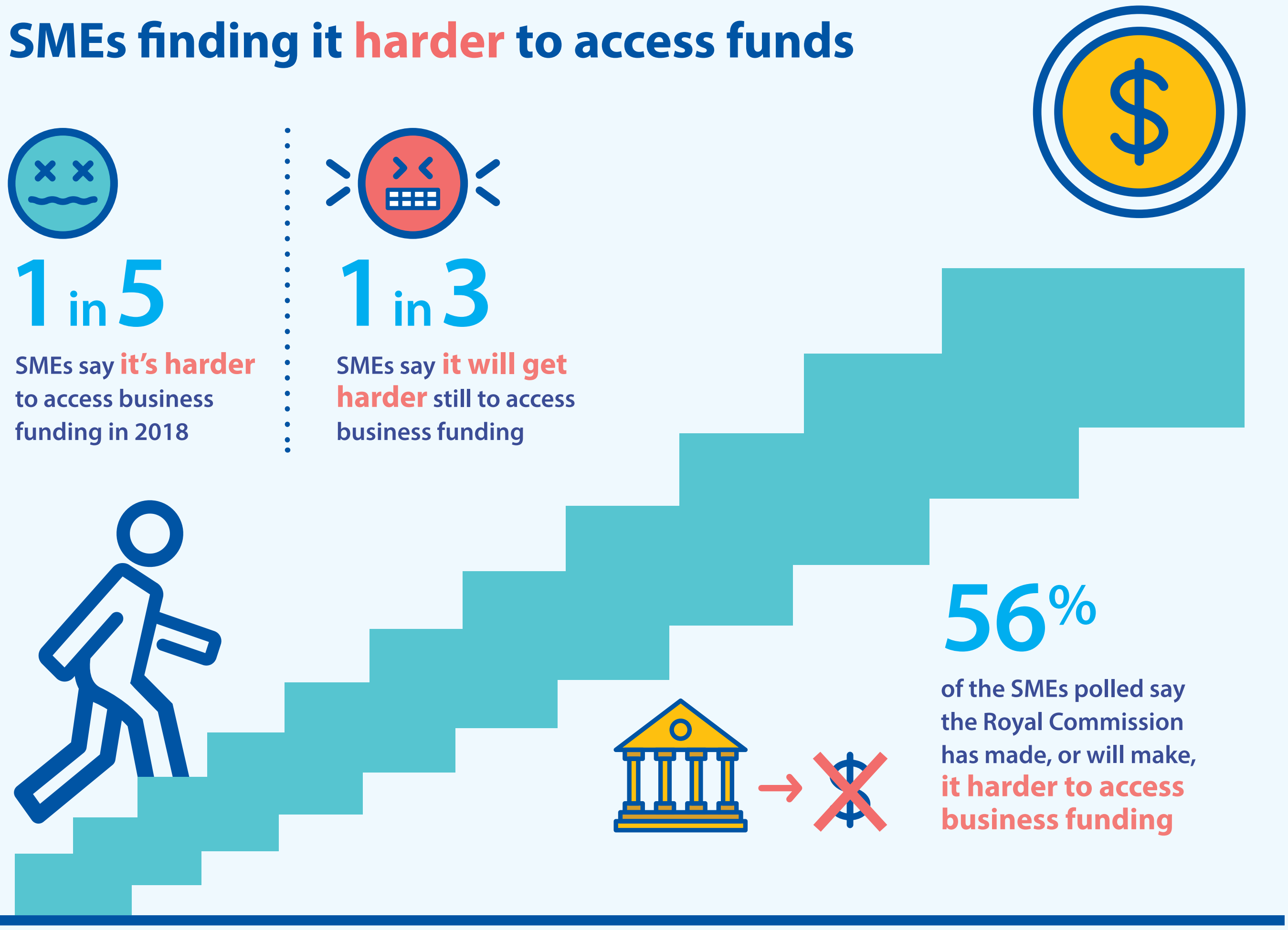
This round, 58% of SME Growth Index respondents say that by far the greatest reason they seek new finance is to fund their expansion opportunities.

The easier it is for SMEs to get funds, the stronger the Australian economy will grow.

Given recent economic forecasts, it should be a government and business community priority to make it easier, not more difficult, for business owners to access funds.

Impact of Royal Commission on SME funding

SMEs finding it harder to access funds



Insight 3

How politicians can win the SME vote

Over the past six years, the *SME Growth Index* has repeatedly highlighted that company tax cuts and a reduced regulatory burden are the most pressing reforms SMEs are crying out for.

Nothing has changed this round.

With a Federal Election set to be held around May 2019, SMEs were clear about their expectations of what the next government should prioritise for the small and medium business sector.

Company tax cuts was the top response, with 27% of business owners saying this should be the new parliament's top SME priority.

More than 23% said their main request was for the instant asset write-off to be further expanded.

These respondents should be pleased that this initiative has already been announced, in early 2019 - this provision will be extended for the 2019/20 financial year, with an expanded scope to include accelerated depreciation on assets valued up to A$25,000 (the previous limit was A$20,000).

One in five SMEs want the newly elected government to prioritise cutting red tape by reducing their administrative and regulatory burden.

SMEs were far more concerned about seeing government action on things they see affecting their business on a day-to-day basis, rather than big picture projects.

Working on SME infrastructure and education was off business owners' agenda.

Dedicated SME infrastructure such as fast tracking the NBN (less than 2%) and educating on cybersecurity (1%) are seen by SMES as unimportant for the new government relative to tax cuts and cutting red tape.

Company tax cuts was the top response, with 27% of business owners saying this should be the new parliament's top SME priority

Only 7% thought reducing SME energy costs should be the main focus for the new parliament.

Despite significant publicity around the announcement of a $2 billion SME lending fund, not even 3% of respondents felt that implementing this fund should be the top priority.

Similarly, few SMEs thought the first order of business should be extending legislation to ease late payment times and mandate participation in the Australian Supplier Payment Code, with just over 2% naming it as their preferred top post-election priority.

This is despite a recent Chubb and YouGov survey, *Too Small to Fail? Australia SME Cyber Preparedness Report*, that found 71% of SMEs have experienced a cyber-attack or error in the past 12 months and 45% of SME owners are not confident that their employees who have access to sensitive data are fully aware of their data privacy responsibilities.

Finally, only one in 10 SMEs named further BAS simplification as their top priority. Government efforts to simplify business activity statements must be starting to hit the mark, because in 2017 streamlining BAS was named as the top government priority by one in four business owners.

SMEs make it quite clear to all levels of government that they want to see changes that have an everyday positive impact on how they do business. This is the key to energising the sector, encouraging investment and driving growth and innovation.

Such measures could include simplifying the complex tax system and cutting red tape, and on a state basis getting rid of the "growth inhibitor" payroll tax – these initiatives would have the biggest daily positive impact for Australia's small to medium businesses.

SMEs want government action on practical business measures

What SMEs want Federal Government to prioritise

High priorities

- 27% Company tax cuts
- 24% Further extend instant asset write-off
- 20% Reduce regulatory admin requirement

Low priorities

- 7% Reduce energy costs
- 3% Implement proposed $2bn SME lending fund
- 2% Mandate participation in Australian Supplier Payment Code

Insight 4

Revenue growth rising – fewer SMEs in trouble

In positive signs for Australia's economy, a rising number of SMEs are predicting revenue growth.

More than 53% say they'll grow in the first half of 2019, up from 51% six months ago. This is the most positive result recorded in the *SME Growth Index* since the first half of 2016.

Growth businesses are forecasting an average 4.9% revenue rise (up from 4.5%). Only one in four SMEs expect revenues to remain flat.

- One in 10 SMEs has no plans to invest in their business in the first half of 2019.
- The average SME respondent's full-time employee headcount continues to downtrend, falling from 71 in the last round to 69 now – it was 88 in the first round in September 2014.
- Among the 791 SMEs planning to invest in business growth in the first six months of 2019, one in 10 (11%) have no concrete strategy in place as to how they'll execute their plans.

Despite these observations, the data shows that levels of SME resilience and positivity are the highest they have been in the past six rounds of the Index.

Growth businesses are forecasting an average 4.9% revenue rise (up from 4.5%). Only one in four SMEs expect revenues to remain flat

Within this promising bounce back, business owners are identifying as being in growth phase more than any other category – over 38% say they are growing, 30% are stable, 12% are consolidating, 11% are start-ups and 8.5% are contracting.

Some results run contrary to these positive sentiments:

- One in five SMEs expect revenues to contract this year, by an average of 5.5%. However, the maximum revenue drop this round (12.2%) is lower than the most negative result in the previous round (13.7%).

When growth and non-growth SMEs are combined, total average revenue projections have more than doubled year-on-year since 2016 - from 0.7% to the current 1.8%.

However, considerable headroom remains to reach the record high all-SME growth forecast of 4.9% notched in the first Index in 2014.

Without a major external economic shock, East & Partners expects a greater number of SMEs will transition towards a stable or positive growth phase.

This trend is confirmed by the steep decline in the proportion of SMEs who view themselves in outright contraction mode, from more than 12% a year ago to 8.5% now - a record jump in the proportion of SMEs moving up from a 'contracting' phase into 'stable' territory.

According to East & Partners, there is a sense that the SME sector's most vulnerable enterprises, firmly entrenched in the negative growth cohort, have 'turned a corner'. For these SMEs at the bottom of the growth spectrum, business is not as hard as it has been.

Growth brings cash flow issues

How are business owners coping with this growth?

Working capital strategies mainly revolve around credit card debt, cash flow forecasting, early supplier discounts, use of trade and invoice finance and ATO tax debt amnesty.

The pressures of growth can be seen, with a rise in those using personal finances such as credit cards to boost their business cashflow (69%, up from just over 66.5% in March 2018 when this question was last asked).

Almost half (47%) are using working capital finance to improve cash flow, with invoice finance used by 11% (up from 7.5%), and 36% utilising trade and import finance.

There has been a jump in those trying to ease cash flow issues by offering discounts for early payment (56%, up from just over 50%).

Almost one in five SMEs are making arrangements with the ATO, up from 16%.

Taking out or increasing an overdraft (13%), using an online funding service (7%) and running credit checks (9%) are all around the same level as they were in early 2018. Debt collection use is slightly down (just over 4%).

Businesses are also spending more time chasing invoices (a cash flow strategy named by 14.5%, up from just over 12%).

One in 10 are reducing their overall sales to ease cash flow pressures.

Almost one in three SMEs do not even run cash flow forecasting to help manage their working capital.

Overall, it appears that a high number of SMEs continue to rely on credit cards, utilise the ATO as a 'lender of last resort' or use disruptive customer-based solutions for managing working capital constraints - as opposed to 'right sizing' their business funding solution to cater for future growth.

SMEs predict revenue growth, using a range of cashflow strategies to get there

More than 53% of SMEs say they'll grow revenue in the first half of 2019

Insight 5

Business owners' top funding frustrations

A vast majority of business owners (almost 87%) have frustrations with their current business funding method.

The top three frustrations involve loan conditions (just over 80%), having to provide property security (79%) and loan inflexibility (73%).

Almost half of all SMEs cited the frustrations of inappropriately short loan tenors (48%) as well as the difficulty of dealing with their lender (47%), while a quarter say their biggest annoyance is feeling insecure with their lender.

Despite business owners' high level of dependence on dipping into personal finances to fund growth, having to provide their own funds is a major frustration for only 6% of them.

Very few (less than 3%) nominated high interest rates, and only 4% said they were frustrated because they could not understand what their funding is costing them.

Overall, the results reveal business owners are primarily frustrated by their funders' inability to adapt loan covenants or debt structure to align with their fast-changing business funding needs.

When bank and non-bank funded SMEs are compared, some interesting statistics are revealed.

SMEs funded by banks are three to four times more likely to be frustrated by loan conditions than those using non-bank lenders as their primary funders.

SMEs using bank funding are almost four times more likely to be frustrated by a lack of flexibility in funding, and six times more likely to say their funder is hard to deal with.

One in two (53%) seek new lines of credit for new plant and equipment investment, while growth in customer demand triggers 25% of SMEs to refinance.

Only one in 10 seek new funding after reviewing existing credit lines, indicating that business owners' reasons for funding applications are much more ad hoc.

Slow customer payments prompt 8% of SMEs to look for more funding.

There are two key factors that trigger a need for new funding: loss of a major customer (47%) and unexpected entrance of new competitors (27%)

Why do SMEs seek credit?

We asked what drives business owners to seek new funding. The prospect to expand into new markets either domestically or internationally, and demand for new asset and equipment financing, are the primary triggers.

Fresh opportunities to expand their business was the funding reason cited by more than 58% of respondents.

Outside of the listed questionnaire responses, SMEs independently nominated two key factors as significant events that trigger a need for new funding: the loss of a major customer (47%) and the unexpected entrance of new competitors (27%).

The fact these two issues were independently nominated by so many business owners provides valuable insight into what triggers a business owners' need for more funding.

Those looking to finance the SME sector should be working with their clients to keep on top of these two triggers, as lenders who identify these factors with current and prospective customers are effectively a 'step ahead' when it comes to truly listening to the customer.

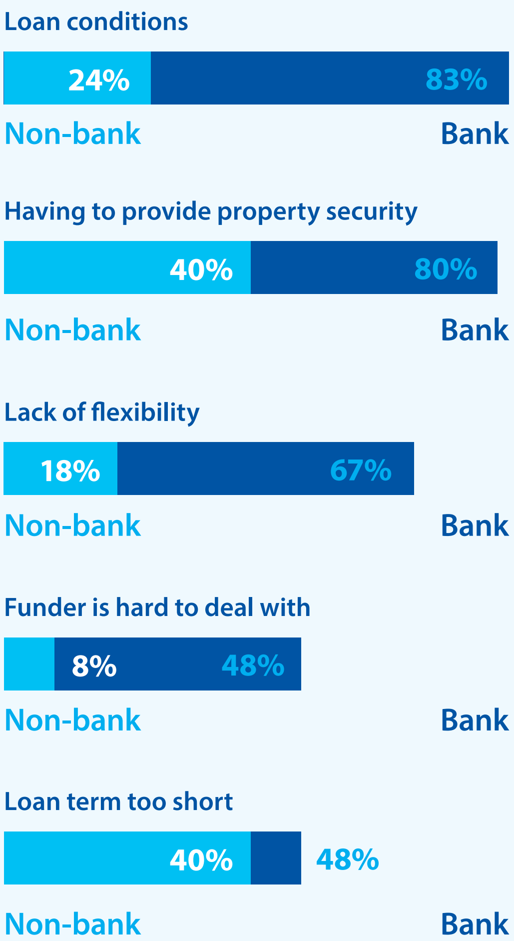
As highlighted in *Insight 4*, working capital methods SMEs used in 2018 to manage their cash flow were led by the dubious strategy of taking on personal credit card debt (69%).

Other key strategies included cashflow forecasting (66%), early supplier payment discounts (56%) and ATO tax debt amnesty (20%).

Growth SMEs are five times more likely to seek new business funding in response to increasing customer demand, or to hire new staff, than static businesses, who are more likely to seek new funding to "hold the fort" after the loss of a major customer or to fend off a new competitor.

This highlights how reactive SMEs are. Once revenue pressure mounts, their credit decision-making is skewed towards defensive operational strategies.

Business owners' top funding frustrations



Top reason SMEs seek new funding

Insight 6

Non-banks could be top growth funders by 2020

For the first time in the five years and 10 rounds of the Scottish Pacific Business Finance *SME Growth Index*, the number of SMEs who turn to their main bank to fund growth has dropped under the 20% mark.

Research was conducted from November 2018 to January 2019, after publication of the Banking Royal Commission's interim report and during the last round of its public hearings.

East & Partners notes that traditional bank borrowing as a primary source of new capital expenditure funding continues to trend lower as more businesses 'shop around' for customised funding solutions to help grow their operations.

Significantly fewer SMEs, when asked "how are you planning to fund business growth?", said they'd approach their main bank (19.5%, a drop of more than three percentage points from September 2018).

When polling began in September 2014, just over 38% of SMEs were turning to their main relationship bank to fund their planned growth.

East & Partners forecasts that if this downward trend continues, alternative lenders will overtake main relationship banks as the key source of growth funding by the second half of 2020.

This round, the biggest gains when it comes to funding growth are for the non-bank lending sector, the first choice for almost 18% of business owners (up from 15% six months ago).

Few businesses in the $1-20m revenue category say they are using merchant cash advance (2.5%), peer to peer lending (1.4%), crowd-funding (0.9%) or other online lending options (0.7%).

Previous Index research revealed that 96% of SMEs are drawn to alternative lenders mainly because of fast credit approval and reduced compliance, and the advantage of not having to borrow against the business owner's home.

It also found that growth SMEs are five times more likely than non-growth SMEs to use an alternative funder in preference to a bank.

The biggest gains when it comes to funding growth are for the non-bank lending sector

This trend towards non-bank lending is supported by SME intention data.

In March 2018, 43.5% of SMEs said they would not consider using non-bank lending. Twelve months on, not even one-third of business owners are in this category.

The most popular alternative finance product nominated by SMEs to fund their growth was trade and import finance (currently used by almost 33% of all businesses polled), followed by debtor or invoice finance (9%).

Overall, findings this round show that the traditional reluctance of SMEs to move beyond tried and tested working capital management strategies is gradually shifting.

However, there is still strong room for growth for non-banks in the SME finance space: two-thirds of SMEs said they did not use non-bank lending options in 2018, but more than half of these said they'd be open to it in the future.

Alternative finance is building momentum, underlined by the clear reluctance of business owners to borrow against property *(see Insight 1)*.

Since tracking began in 2014, it's clear that ultimately business owners rely heavily on their own equity.

This round, the percentage of owners dipping into their own funds, always around 90%, has fallen to 84%, a drop of more than five percentage points from six months ago.

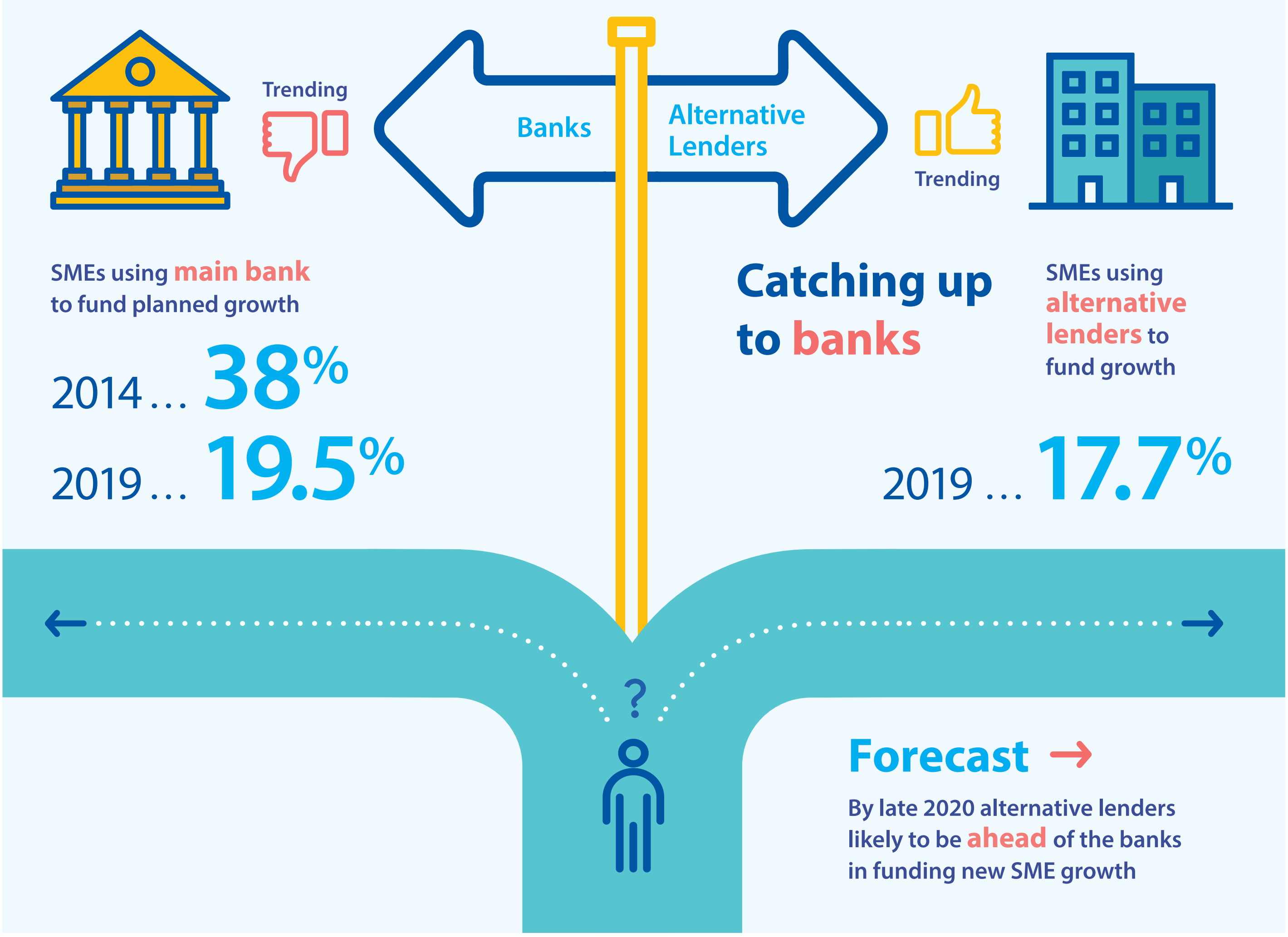
This has been driven by the declining or no change SME owner segment, which showed a significant dip in using their own equity to fund their business, from more than 86% last round to 63% now.

East & Partners pinpointed a high proportion of SMEs relying on 'dumb debt' (such as personal credit cards) or owners' equity to fund new productive capacity, commenting that these strategies can limit new business investment opportunities.

They note the potential for latent non-bank credit demand to be realised, with more than 35% of SMEs not yet having ventured beyond traditional bank funding or owners' equity in the last year, yet indicating they are willing to do so.

Small businesses are seemingly saying to non-bank lenders "make me an offer – I'm listening".

Banks lose ground on funding new SME growth



Results

Standard Index Questions

Q1

Please forecast the percentage change in your business revenues - either negative or positive – over the coming six months?

	Forecast: Changes in Enterprise Revenue			
(N: 1,257)	Positive Growth	Negative Decline	No Change	Whole SME Market
% of Enterprises	53.2	22.5	24.3	100
Average Change Forecast	4.9	5.5	-	1.8
Range of Change Forecast	1.2-6.2	4.1-12.2	-	1.2-12.2

Note: *no statistically significant variance by state or industry sector of SME*

Q2

Which of these best describes the phase your business is in:

	% of Total		
	Growth SMEs (N: 669)	Declining/No Change SMEs (N: 588)	Whole SME Market (N: 1,257)
Start-up	20.8	-	11.1
Growth	71.6	0.2	38.2
Stable	4.2	59.4	30.0
Consolidation	3.1	22.6	12.3
Contracting	0.3	17.9	8.5
TOTAL	100.0	100.0	100.0

***Note:** no statistically significant variance by state or industry sector of SME*

Standard Index Questions

Q3

If you are planning to invest in your business in the next six months, how are you planning to fund that growth ?

	% of Total		
	Growth SMEs Investing (N: 669)	Declining/No Change SMEs Investing (N: 122)	Whole SME Market Investing (N: 791)
Borrowing from my main relationship bank	19.4	19.7	19.5
Borrow from another bank	8.8	18.0	10.2
Borrow from a non-bank lender	13.2	42.6	17.7
Other forms of debt	1.2	10.7	2.7
Own funds	88.0	63.1	84.2
New equity	15.2	7.4	14.0
No plans on how to invest	8.2	27.0	11.1

Note: *no statistically significant variance by state, industry sector or primary working capital provider*

Note: *sums to over N count due to multiple responding allowed*

Results

Standard Index Questions

Q4

What frustrations do you have about your current funding methods ?

	% of Total (N: 1,257)	Banks Primary Lender (N: 1,207)	Non-Banks Primary Lender (N: 50)
Have to provide property security	78.6	80.2	40.0
Conditions of loan	80.4	82.8	24.0
Lack of flexibility	72.9	66.9	18.0
High interest rates	2.6	0.9	44.0
Funder is hard to deal with	46.8	48.4	8.0
Loan tenor is too long	1.4	1.2	6.0
Loan tenor is too short	48.0	48.3	40.0
Don’t feel secure with the lender	23.6	23.0	42.0
Doesn’t meet all our needs	16.1	13.7	76.0
Don’t clearly understand what the funding is costing	4.3	4.3	4.0
Using owner funds eats into my personal finances	6.3	6.0	12.0
Don’t have any frustrations	13.1	13.4	6.0

Note: *no statistically significant variance by state, industry sector, primary working capital provider or “growth”/”no change” SMEs*

Note: *sums to over N count due to multiple responding allowed*

Note: *caution to be taken with non-bank outcomes due to low N counts*

Results

Standard Index Questions

Q5

What triggers you to seek new business funding?

	% of Total (N: 1,257)	Growth SMEs (N: 669)	Declining/No Change SMEs (N: 588)
New plant and equipment investment	53.2	58.0	47.8
Slow customer payments	8.0	3.9	12.8
Hiring new staff	3.3	5.4	1.0
Supplier discount	3.0	3.0	3.1
Review of existing credit lines	9.9	10.8	8.8
Change in exchange rates	6.0	5.2	7.0
New opportunity to expand business	58.3	90.3	21.9
Growth in customer demand	24.9	39.8	8.0
Government initiatives	1.9	2.2	1.5
Other			
Loss of a major customer	46.6	36.6	58.0
New competitor entry	26.6	11.4	43.9

Note: *no statistically significant variance by state, industry sector, primary working capital provider*

Note: *sums to over N count due to multiple responding allowed*

Results

Standard Index Questions

Q6

Would you be prepared to pay a higher rate to obtain finance if it meant that you didn't have to provide real estate security?

	% of Total (N: 1,257)
Yes, definitely	65.1
Yes, probably	26.3
Possibly/not sure	6.2
Unlikely	1.6
Definitely not	0.9
TOTAL	100.0

Note: no statistically significant variance by state, industry sector, primary working capital provider or "growth"/"no change" SMEs

Q7

Over the past 12 months have you used any of the following non-bank lending options to provide working capital to your business?

	% of Total (N:1,257)
Debtor finance (invoice finance)	9.0
Trade / import finance	32.7
Merchant cash advance	2.5
P2P lending	1.4
Crowd funding	0.9
Other online lending	0.7
Other	0.2
None of the above, but interested in non-bank lending options	35.3
None of the above, and would not consider non-bank lending options	30.9

***Note:** no statistically significant variance by state, industry sector, primary working capital provider or "growth"/"no change" SMEs*

***Note:** sums to over N count due to multiple responding allowed*

Results

Standard Index Questions

Q8

In 2019, what cashflow strategies do you plan to use to manage working capital ?

	% of Total (N: 1,257)
Customer credit checks	8.8
Undertake cashflow forecasts	66.3
Use personal finances such as a credit card to ease cashflow	69.0
Take out or increase debtor finance to smooth peaks and troughs	11.1
Take out or increase an overdraft	13.1
Trade/import finance	36.3
Offer discounts for early payment	56.2
Spend more time chasing invoices	14.5
Use a debt collection company to recover debts	4.4
Make arrangements with the ATO regarding tax payments	19.7
Use an online funding service	7.0
Reduce overall sales	10.4
Reduce overall customer number	7.2
Stop taking new clients	2.5
Reduce costs	-
Make arrangements with suppliers to extend terms	-
Other	0.2

Note: *no statistically significant variance by state, industry sector, primary working capital provider or "growth"/"no change" SMEs*

Note: *sums to over N count due to multiple responding allowed*

Results

Round 10 Special Questions

Q9

2019 is a federal election year - what should be the new Government's top priority for the SME sector?

	% of Total (N: 1,257)
Extend legislation to ease late payment time	2.3
Company tax cuts	27.1
Implement proposed $2Bn SME lending fund	2.6
Further simplify BAS requirements	9.6
Increase Government grants	3.6
Reduce regulatory and admin requirements	19.6
Mandate participation in Australian Supplier Payment Code	1.7
National SME cybersecurity education	1.0
Infrastructure for SMEs (fast track NBN, freight discounts, etc.)	1.6
Further extend instant asset write-off	23.6
Reduce energy costs	7.0
Other	0.2
TOTAL	100.0

Note: *no statistically significant variance by state, industry sector, primary working capital provider or "growth"/"no change" SMEs*

Q10

Has the fallout from the Royal Commission into Banking impacted your access to business funding?

	% of Total (N: 1,257)
It has made securing funding easier	-
It has made securing funding harder	22.2
No difference	12.3
Unaware/haven't tried to access funding	31.7
Other	0.0
Expecting that funding will become harder to access	33.7
TOTAL	100.0

Note: *no statistically significant variance by state, industry sector, primary working capital provider or "growth"/"no change" SMEs*

Round 10 Special Questions

Q11a

Have property price fluctuations impacted on your access to business funding?

	Total (N: 1,257)	NSW/ACT (N: 491)	VIC/TAS (N: 286)	QLD (N: 226)	WA (N: 168)	SA/NT (N: 86)
Positive impact (able to access more funds)	-	-	-	-	-	-
Negative impact (harder to access funds)	44.5	46.2	48.3	39.4	41.7	40.7
No impact	20.7	18.3	17.8	24.8	24.4	25.6
No impact yet, but can see this will be a future problem	34.8	35.4	33.9	35.8	33.9	33.7
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Note: *no statistically significant variance by state, industry sector, primary working capital provider or "growth"/"no change" SMEs*

Q11b

Have property price fluctuations impacted on your access to business funding?

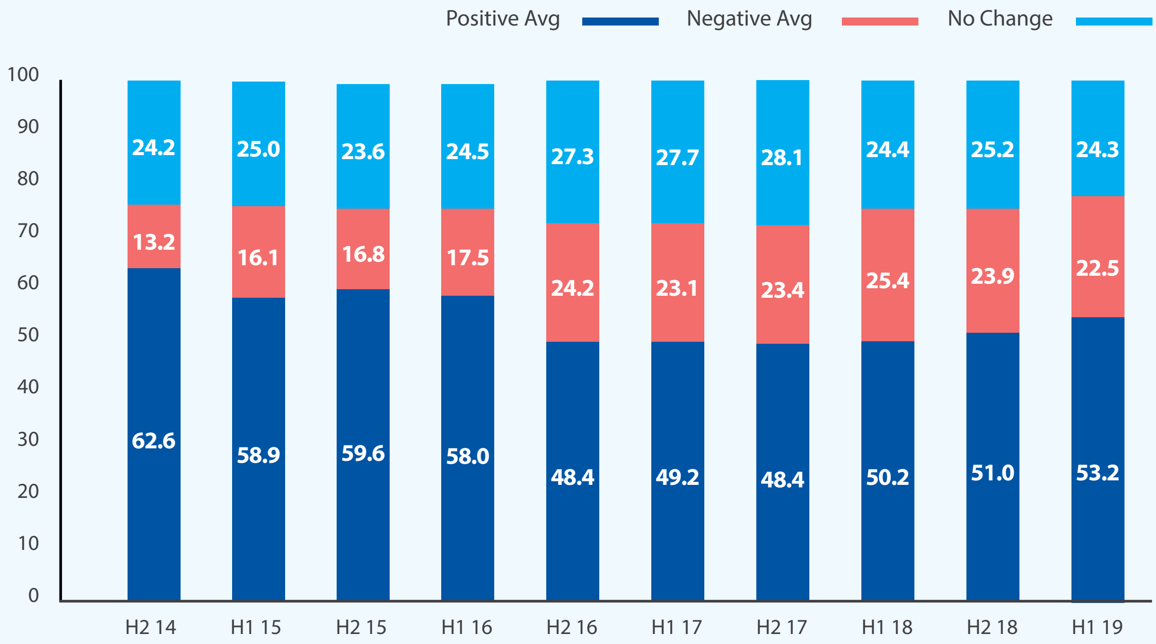
	Total (N: 1,257)	Growth SMEs (N: 669)	Declining/No Change SMEs (N: 588)
Positive impact (able to access more funds)	-	-	-
Negative impact (harder to access funds)	44.5	36.0	54.1
No impact	20.7	23.8	17.2
No impact yet, but can see this will be a future problem	34.8	40.2	28.7
TOTAL	100.0	100.0	100.0

Results

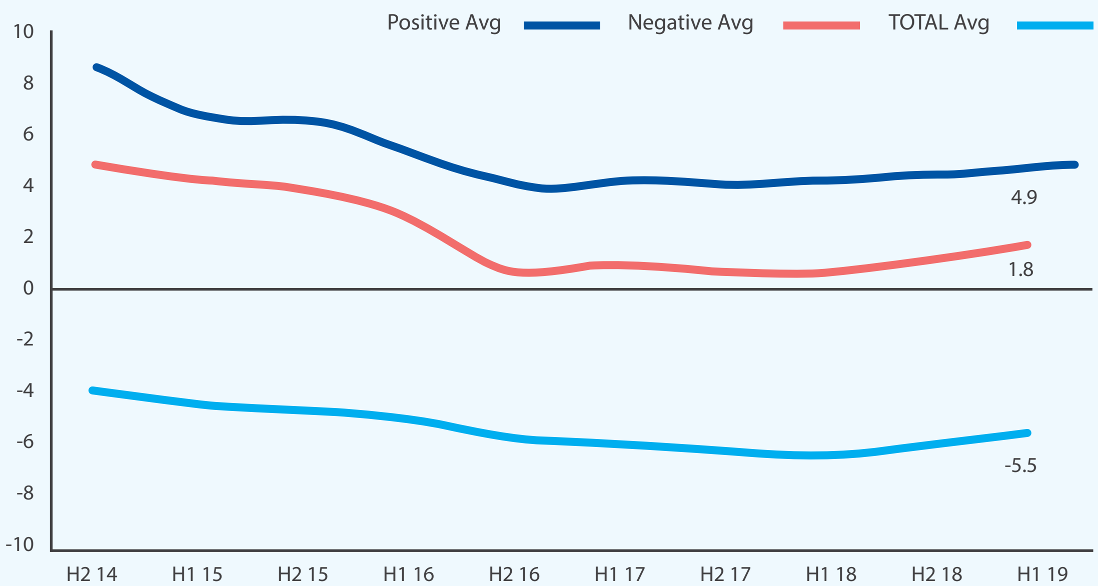
Trend Data

Forecast Changes in Enterprise Revenue

% of SMEs – Total Market (N: 1,257)

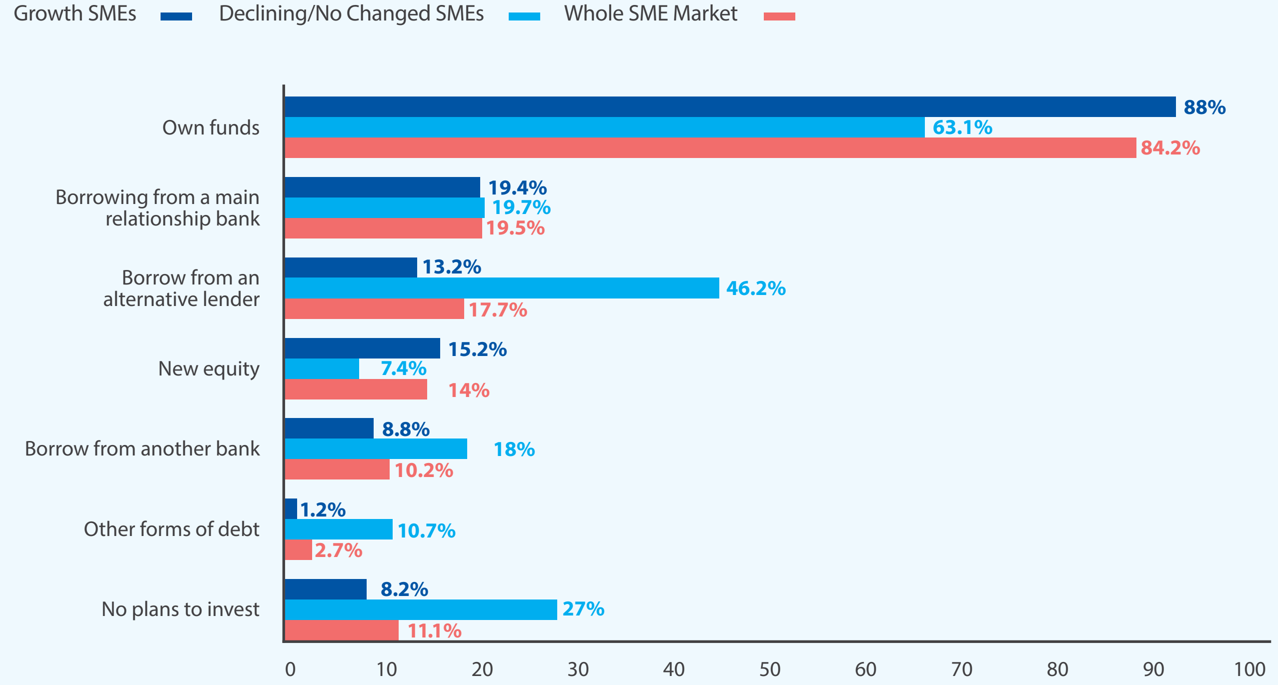


Avg % Revenue Growth Change Forecast (N: 1,257)



Funding Plans for Business Investment

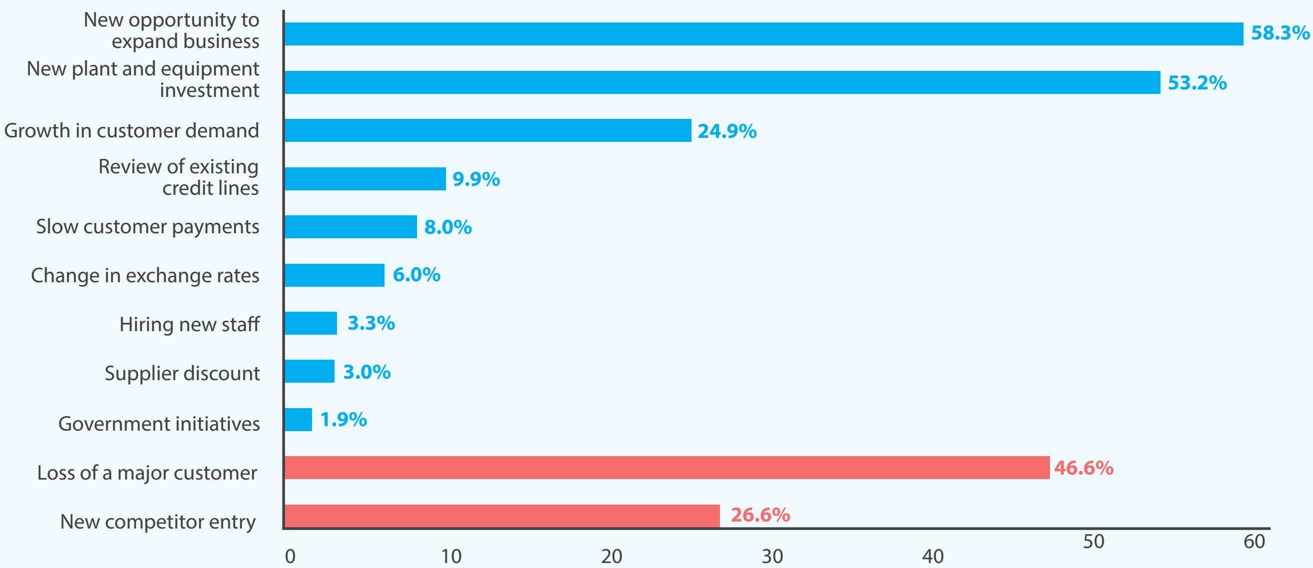
% of SMEs – Investing (N: 791)



Note: *Sums to over 100 percent – multiple responding allowed.*

New Funding Triggers

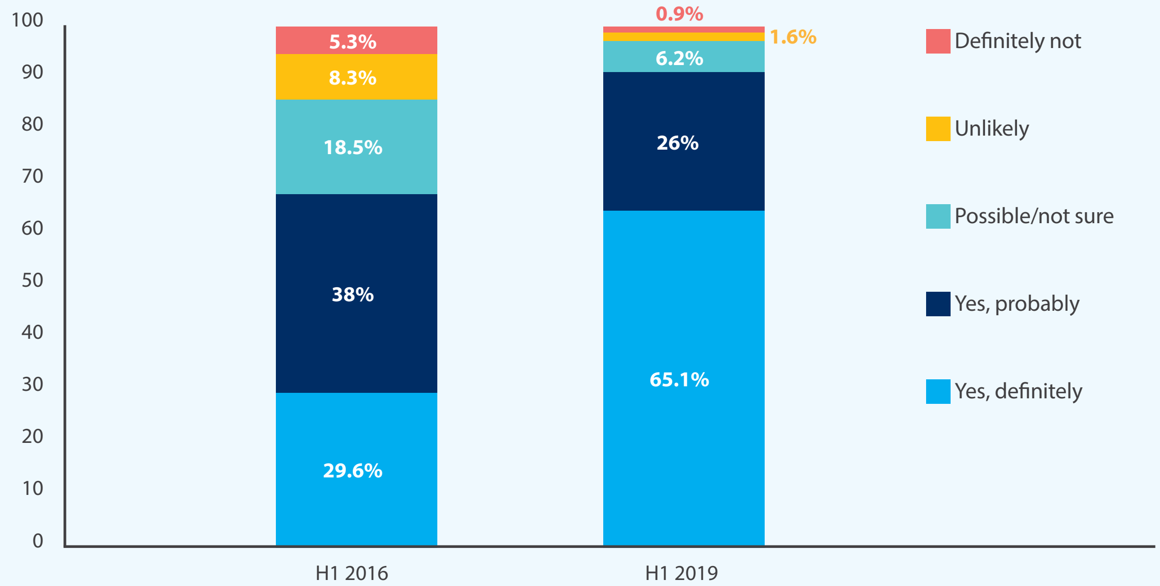
% of SMEs – Total Market (N: 1,257)



Note: *Sums to over 100 percent – multiple responding allowed*

Accept Higher Interest Rate for Financing Instead of Real Estate

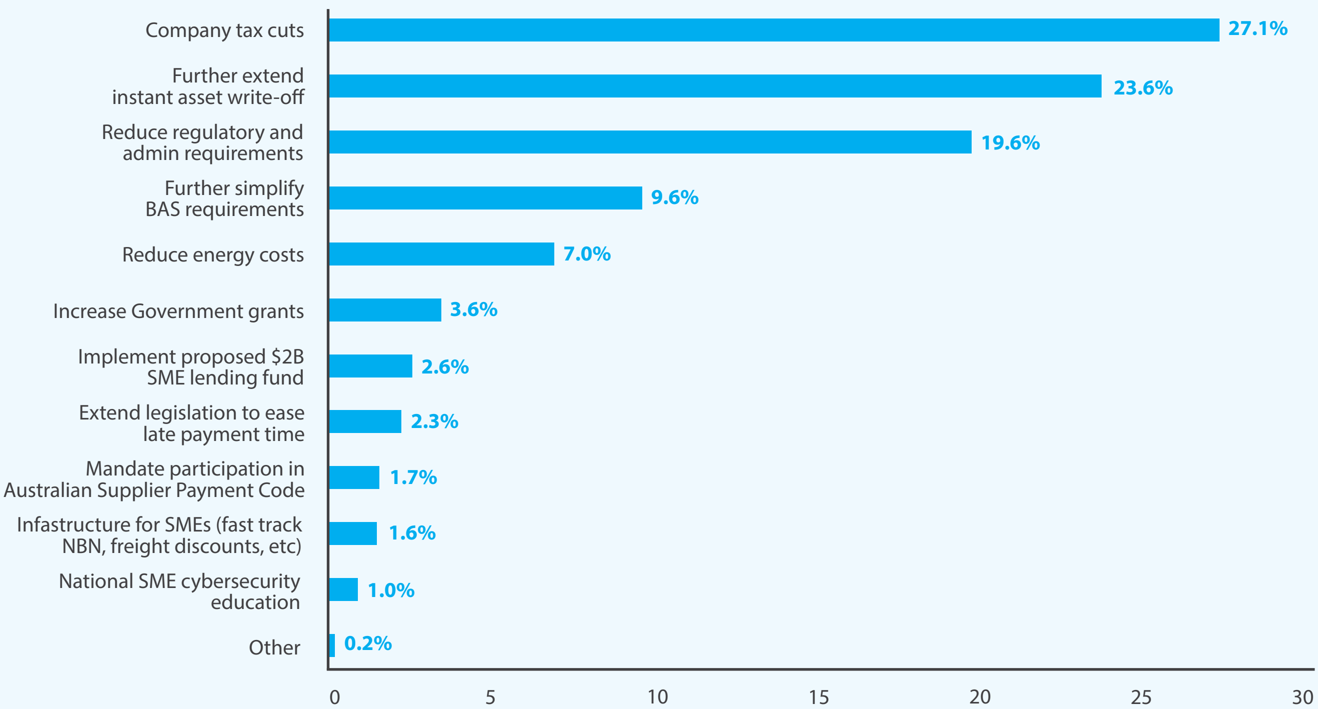
% of SMEs – Total Market (N: 1,257)



Top Government Election SME Sector Priority

2019 is an election year - what should be the Government's top priority for SMEs?

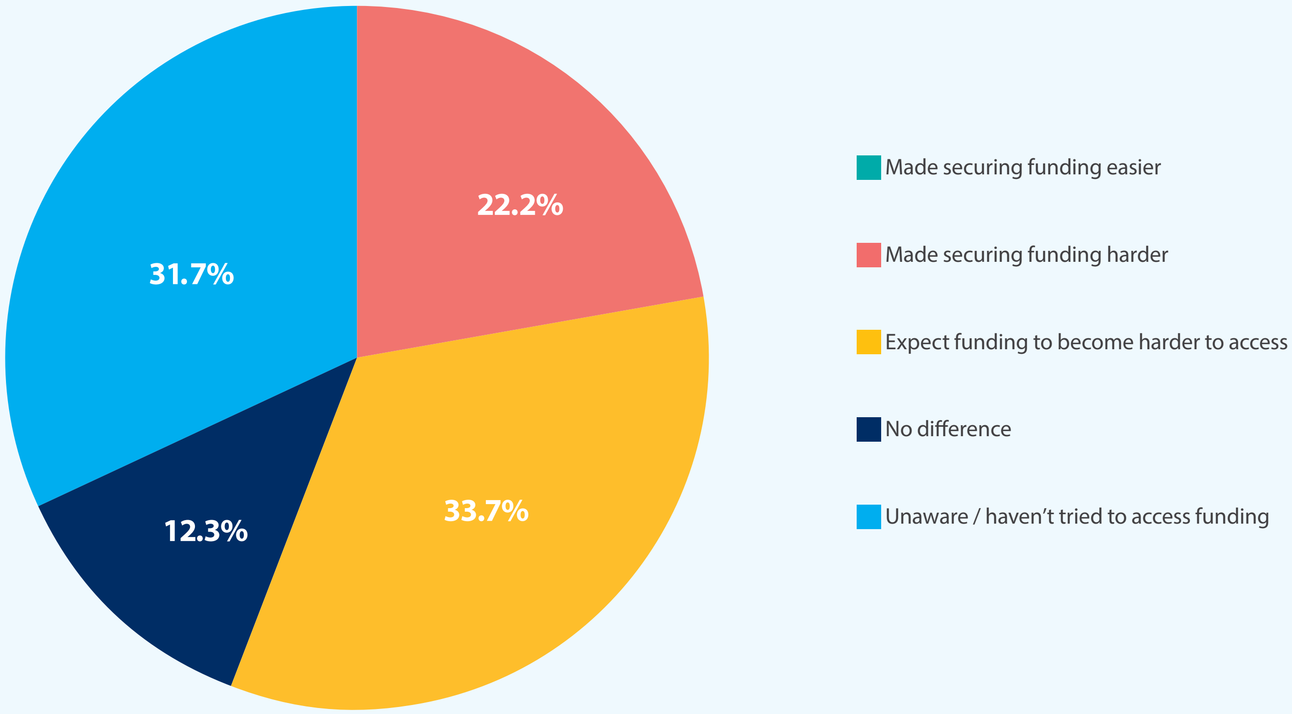
% of SMEs – Total Market (N: 1,257)



Royal Commission Impact on Business Funding

Has the Royal Commission fallout impacted your access to business funding?

% of SMEs – Total Market (N: 1,257)



Results

Methodology

East & Partners interviewed 1,257 SME businesses with annual revenues of A$1-20 million over a seven-week period ending 18 January 2019.

All interviews were conducted over the telephone or face-to-face by an accredited East interviewer, speaking with the company CEO, CFO or treasurer as represented in Table B below.

The sample was framed in accordance with ANZSIC codes to provide a natural sample of the Australian enterprise population, with state and sector demographics outlined in Tables A and C.

All interviews followed the closed response questionnaire.

A.

Geographical Distribution	H2 2018 (N: 1,253)	H1 2019 (N: 1,257)
NSW & ACT	39.5	39.1
VIC & TAS	22.6	22.8
QLD	18.1	18.0
WA	13.3	13.4
SA & NT	6.5	6.8
TOTAL	100.0	100.0
Metropolitan	71.2	29.6
Regional	28.8	70.4
TOTAL	100.0	100.0

B.

Interviewee Distribution	% of Total	
	H2 2018 (N: 1,253)	H1 2019 (N: 1,257)
Business Owner / CEO	58.5	57.8
CFO	22.4	22.6
Finance Director	9.3	9.5
Treasurer	2.9	2.9
Other	6.9	7.2
TOTAL	100.0	100.0

C.

Sample Industry Sector Distribution	% of Total H2 2018 (N: 1,253)	H1 2019 (N: 1,257)
Agriculture, Forestry, Fishing	5.8	5.8
Mining & Resources	7.5	7.6
Manufacturing	17.7	17.2
Electricity, Gas & Water	0.6	0.6
Construction	9.7	9.7
Wholesale	9.3	9.5
Retail	12.5	12.6
Accommodation, Cafes & Restaurants	2.6	2.5
Transport & Storage	7.7	7.8
Media & Telco	1.5	1.7
Finance & Insurance (non-banks)	3.4	3.2
Property & Business Services	12.9	13.0
Personal & Other Services	8.9	8.8
TOTAL	100.0	100.0

D.

Age of Business (Years)	H2 2018 (N: 1,253)	H1 2019 (N: 1,257)
Average number of years in business	11.2	11.5

E.

Headcount of Business	H2 2018 (N: 1,253)	H1 2019 (N: 1,257)
Average Full Time Employees in business	71.0	69.0

East & Partners is a leading specialist business banking market research and analysis firm. The firm's core expertise is in the provision of analysis and advisory services tailored for the commercial, business and institutional banking markets across Asia Pacific, Australasia, Europe and North America.

The delivery of accurate quantitative analysis on businesses exploding demand for sophisticated transaction, FX, debt, treasury, investment and advisory banking services and products has been uniquely addressed by East's "bottom up" research methodologies since 1987, based on many thousands of customer interviews with CEOs, CFOs, treasurers and business owners.

East's multi-client demand side research and consulting work has enabled the firm to partner virtually every major domestic and international bank present in the geographies the firm operates in.

east&partners

East & Partners Pty Ltd
Level 13, 2 Park Street Sydney NSW 2000 Australia
Phone: +61-2-9004 7848
Fax: +61-2-9004 7070
www.eastandpartners.com

About Scottish Pacific Business Finance

Scottish Pacific Business Finance has a more than 30-year history of providing funding solutions to owners of small to medium businesses.

Established in 1988, Scottish Pacific Business Finance is Australia and New Zealand's largest specialist provider of SME working capital solutions.

Scottish Pacific Business Finance handles more than $17 billion of invoices each year, providing funding lines exceeding $1 billion, and lends to a wide range of business owners, providing working capital from $10,000 for a start-up funding to $100m to fund the growth of a small public company.

Clients are predominantly Small to Medium Sized Enterprises (SMEs) requiring personalised facilities that best suit their individual needs, and who often find it difficult to obtain appropriate funding from their main banking providers.

With full operations centres in Sydney, Melbourne, Perth, Brisbane, Adelaide, Auckland and China, Scottish Pacific Business Finance offers a comprehensive range of specialised finance solutions, including invoice finance and trade finance, that can remove property security from the funding equation for business owners.

A more flexible view on the financial strength and potential of a business is offered to clients, with Scottish Pacific Business Finance able to fund businesses through all stages of the economic cycle, and all stages of their existence from start-up through to sale of the business, from high growth to seasonal challenges.

Scottish Pacific Business Finance was recognised as Australia's best SME cashflow lender in the 2018 International Finance Awards and acknowledged as best business finance provider in the 2017 and 2015 global TFG International Trade Finance Awards.

As a specialist provider of working capital, Scottish Pacific Business Finance is well placed to understand the needs and the sentiment of SME businesses, and initiated the *SME Growth Index* to:

- Drive development of the financial solutions available to SMEs throughout Australia and New Zealand, by providing market intelligence to deepen the understanding of SMEs' needs.
- Provide Scottish Pacific Business Finance with the data to help us act as advocates for SMEs, and as thought leaders within the business finance community.
- Share our insights with the broad SME community - the lifeblood of business in Australia - and with fellow business finance professionals.

The next Scottish Pacific Business Finance *SME Growth Index* will be released in September 2019.

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