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Scottish Pacific SME Growth Index

September 2014



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Introduction

Scottish Pacific is Australia and New Zealand's largest specialist provider of working capital solutions.

The company's clients are predominantly Small to Medium Sized Enterprises (SMEs) which are often faced with cash flow and working capital issues, in particular during periods of sustained growth.

Scottish Pacific is well placed to understand the needs and the sentiment of SME businesses, and the *Scottish Pacific SME Growth Index* is a response to the firm's unique position in the market, and its growing status as a market leader.

This is the first round of the Index, which will serve as a benchmark for the bi-annual surveying of a broad and representative range of Australian SMEs, on issues surrounding business growth.

The purpose of the Index is three-fold:

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

Scottish Pacific has engaged East & Partners to execute the Index, which comprises eight core questions – to be repeated in subsequent rounds – and three special questions, which can differ with each Index round.

The questions cover growth forecasts, investment and product/service intentions, funding alternatives and constraints, acquisition and merger plans and also exit strategies.

This first round of the Index shows an Australian SME community which is, on the whole, optimistic about their business prospects over the next six months but feels hindered by funding constraints.

There is, however, significant energy for the introduction of new products and services, and among those businesses in growth mode, an appetite for acquiring other businesses in order to grow.

Key Market Insights

An encouraging majority of SME businesses are forecasting positive growth over the next six months, and with a brisk average forecast growth rate of 8.6 percent.

Better than six out of ten (62.8 percent) of businesses interviewed were forecasting growth, against only 13.2 percent which forecast a decline.

In order to fund growth and invest in the business, the most common option is for businesses to use their own funds (81.1 percent). Four out of ten businesses say they plan to borrow from their main relationship bank, with one in ten looking to other lenders and non-bank special providers as a funding source.

This propensity for using their own funds could be attributable to a lack of awareness of the borrowing options open to SMEs. This view is further supported by the fact that access to credit continues to be cited as a major issue for SMEs, with six out of ten reporting credit conditions as a growth barrier, and five out of ten nominating the availability of credit.

A strong majority – 64.0 percent – say they are required to provide personal assets, such as their family homes, as collateral for business debt, which is a further indicator that many SMEs are unaware of business funding options beyond the typical bank overdraft secured by real estate.

When asked to describe the business phase they are in, almost one in two (45.5) percent said they were in growth mode, with more than three out of ten (32.3 percent) describing themselves as stable or consolidating.

More than one in ten (13.8 percent) are start-ups while only 8.5 percent described themselves as contracting.

SME businesses are not just growing organically, they are adding to their product and service offerings. Almost seven in ten (68.6 percent) say they will add new products or services in the next six months, with new services more prevalent than products.

Among businesses which are forecasting growth, the response is even more pro-active, with 99.4 percent planning new products or services.

The dichotomy in sentiment – and action – between the declining / no change group is underlined by the response that eight out ten of these businesses have no plans in this area.

The contrast is also evident in responses on geographical growth. Where 34.5 percent of those in growth mode say they have plans to grow geographically – either domestically or internationally – in the next six months, only 23.3 percent of those in the declining/no change group have such plans.

Growth by merger and/or acquisition is also on the agenda for those businesses which are in growth mode. Nearly two in ten (18.9 percent) of businesses in this group say they plan to acquire another business, while another 4.8 percent plan a merger.

This contrasts with those businesses in the declining/no change group, none of which say they plan to acquire another business, although a higher percentage (8.1 percent) say they have merger plans.

There is also a wide gap in intentions on the issue of selling the business. Where one quarter of businesses in the declining/no change group had plans to sell in the next six months, only 8.0 percent of those in the growth category wanted to sell.

Retirement plans were also a much bigger driver for sale among the declining/no change group, with 45.1 percent saying their sales plans were motivated by this. Among the growth category businesses which had plans to sell, one fifth were doing so for retirement reasons, while seven out of ten said they had “offers too good to refuse.”

Emphasising the self-reliance of the SME segment, a key driver of any growth are the businesses' human resources. One third of all businesses cite the talents of their staff and teams as a key driver for growth, the largest driver next to relationships with anchor/core customers.

Underlining the opportunistic, and reactive, nature of many SME businesses, however, close to half of all businesses say their growth is either as the result of luck and good fortune (17.8 percent) or as a result of the business “just following its nose” (28.2 percent).

Methodology

East & Partners interviewed 1,257 SME businesses with annual revenues of between A\$1-20 million in late July/early August 2014.

All interviews were conducted over the telephone or face to face by an East interviewer, speaking with company officers as shown in Table B below.

The sample was framed in according 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 questionnaire which is included as Appendix 1 to this report.

TABLE A
Geographical Distribution
% of Total

	Aug 2014 (N: 1257)
NSW & ACT	38.5
VIC & TAS	24.1
QLD	18.1
WA	12.8
Other	6.5
TOTAL	100.0

TABLE B
Interviewee Distribution
% of Total

	Aug 2014 (N: 1257)
Business Owner / CEO	60.1
CFO	22.0
Finance Director	8.4
Treasurer	2.5
Other	7.1
TOTAL	100.0

TABLE C
Sample Industry Sector Distribution
% of Total

	Aug 2014 (N: 1257)
Agriculture, Forestry, Fishing	5.6
Mining & Resources	8.6
Manufacturing	18.8
Electricity, Gas & Water	1.2
Construction	8.3
Wholesale	8.7
Retail	12.3
Accommodation, Cafes & Restaurants	2.9
Transport & Storage	7.2
Media & Telco	1.1
Finance & Insurance (non-banks)	4.5
Property & Business Services	12.2
Personal & Other Services	8.7
TOTAL	100.0

TABLE D
Age of Business
Years

	Aug 2014 (N: 1257)
Average number of years in business	8.3

TABLE E
Headcount of Business
Full Time Employees

	Aug 2014 (N: 1257)
Average FTE in Business	88

Index Results

Scottish Pacific SME Growth Index

September 2014

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

- Better than six out of ten businesses are forecasting positive growth, and by an average of 8.6 percent.
- Just over one in ten businesses are forecasting revenue falls, and by an average 3.9 percent.
- The total market forecast is for growth of 4.9 percent in the next six months.

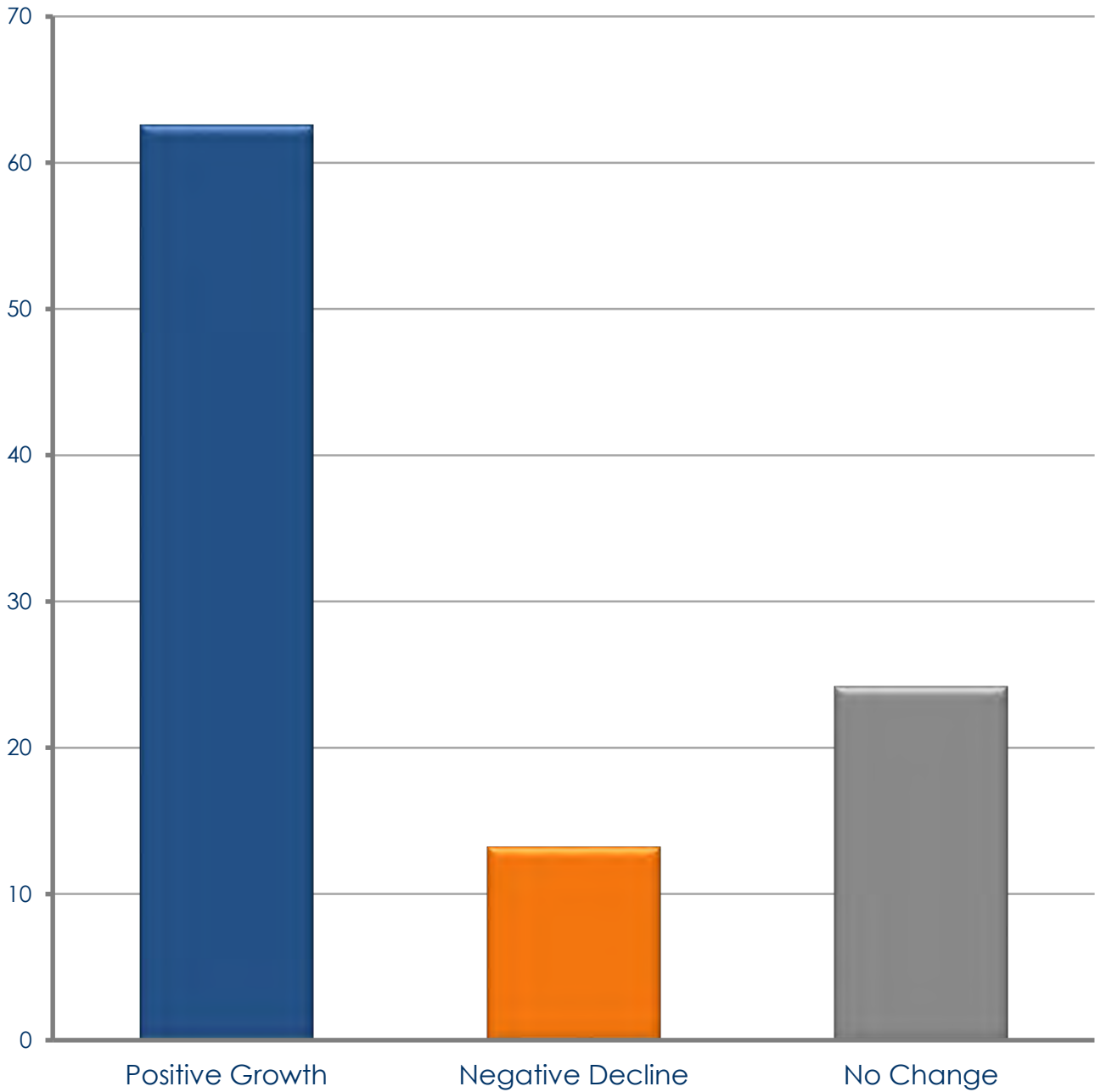
TABLE 1

Forecast Changes in Enterprise Revenue

(N: 1257)	Positive Growth	Negative Decline	No Change	Whole SME Market
% of Enterprises	62.6	13.2	24.2	100.0
Average Change Forecast	8.6	3.9	—	4.9
Range of Change Forecasts	5.4 - 9.8	2.5 - 7.7	—	2.5 - 9.8

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

FIGURE 1
Forecast Changes in Enterprise Revenue
% of Enterprises



Which of these descriptions best describes the phase your business is currently in?

- SME businesses are displaying encouraging optimism around growth. Better than four out of ten across the whole market describe their business as being in growth mode, while less than one in ten says it is contracting.
- Start-up businesses comprise 13.8 percent of the total market sample. All start-up businesses say they are in growth mode.
- Only 8.5 percent – less than one in ten – of all businesses say they are contracting.

TABLE 2

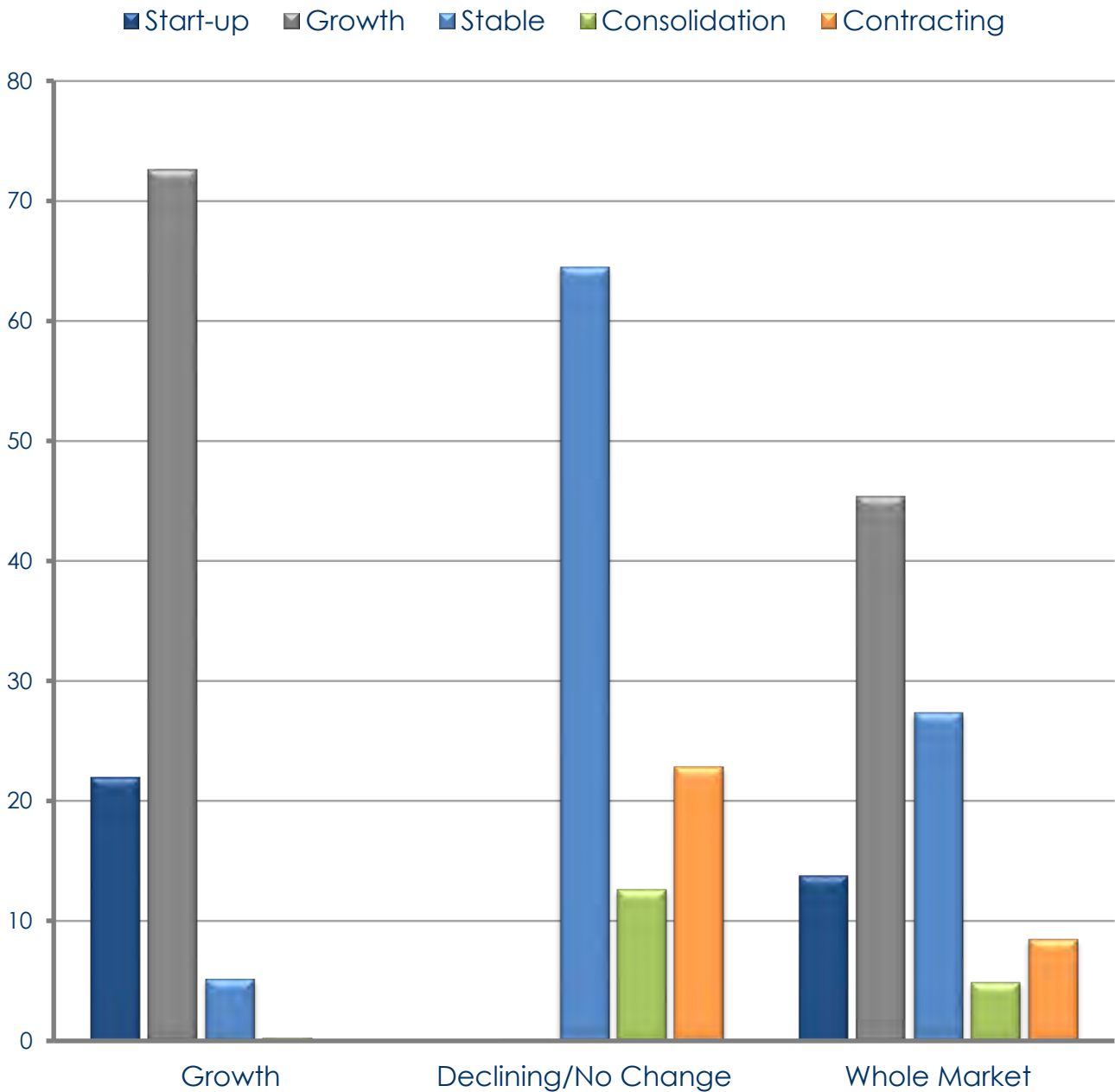
Perception of Own Business Phase

% of Total SMEs

	Growth (N: 787)	Declining/No Change (N: 470)	Whole Market (N: 1257)
Start-up	22.0	—	13.8
Growth	72.6	0.2	45.5
Stable	5.2	64.5	27.4
Consolidation	0.3	12.6	4.9
Contracting	—	22.8	8.5
TOTAL	100.0	100.0	100.0

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

FIGURE 2
Perception of Own Business Phase
 % of Total SMEs



Are you planning to introduce any new products or services in the next six months?

- 68.6 percent of all businesses have plans to introduce new goods or services in the next six months.
- The largest percentage – 34.5 percent – say they plan to introduce new services. One out of two businesses which say they anticipate growth say they will introduce new services.
- Barely two in ten of the businesses which say their revenues are declining/will not change have plans to introduce new products or services.

TABLE 3

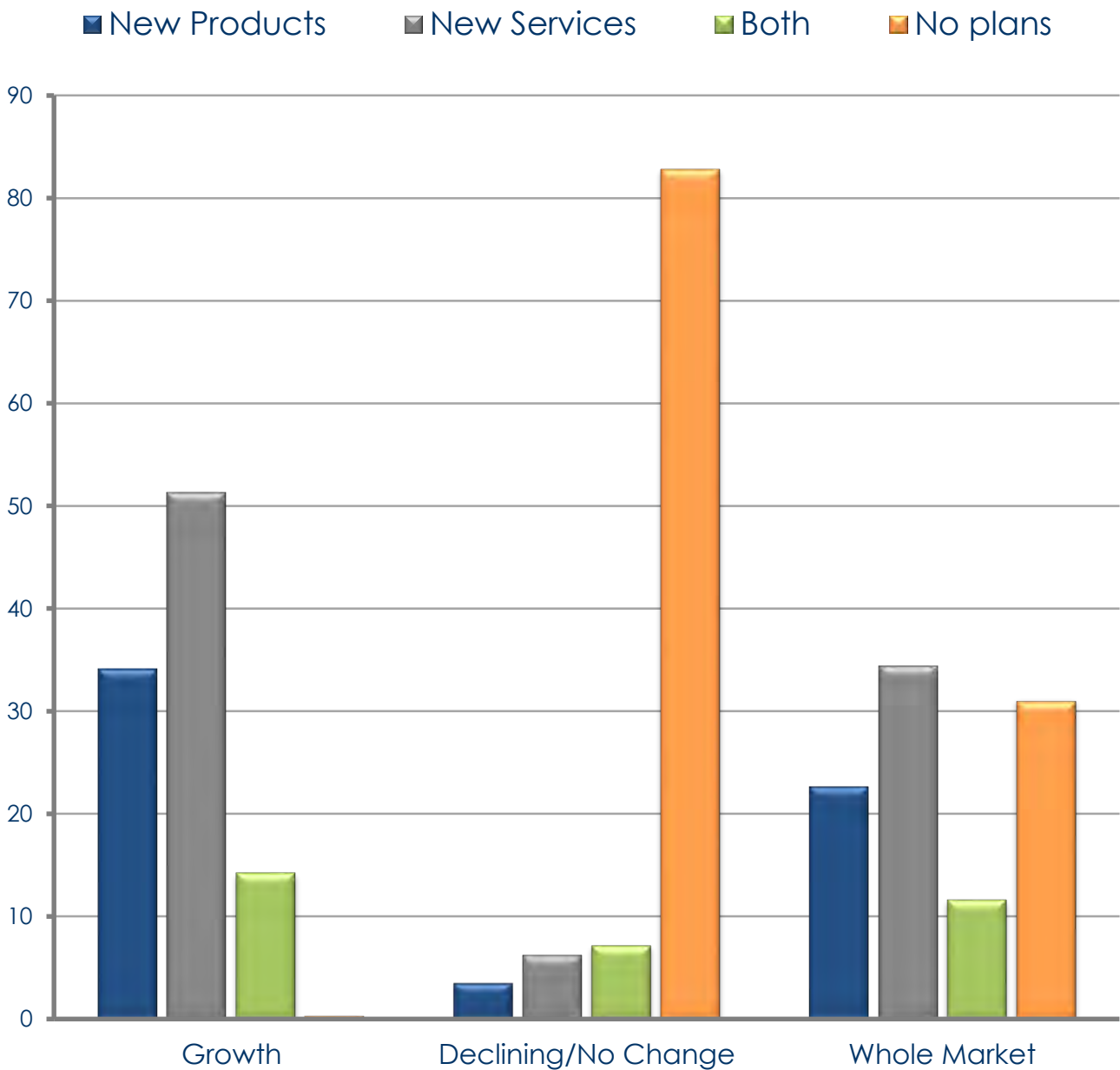
New Product / Service Plans in Next Six Months

% of Total SMEs

	Growth (N: 787)	Declining/No Change (N: 470)	Whole Market (N: 1257)
New products	34.1	3.6	22.7
New services	51.3	6.4	34.5
New products and new services	14.2	7.2	11.6
No plans	0.4	82.8	31.2
TOTAL	100.0	100.0	100.0

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

FIGURE 3
New Product / Service Plans in Next Six Months
% of Total SMEs



Are you planning to expand your business geographically in the next six months, either domestically or overseas?

- Three quarters of businesses have no plans to expand their business geographically.
- One in five businesses plan either domestic-only expansion, or both domestic and geographic expansion.
- 17.3 percent of businesses which are forecasting growth plan domestic geographic expansion, while another 11.6 percent plan to expand both domestically and internationally.
- Only 3.7 percent of businesses plan overseas geographic expansion.

TABLE 4

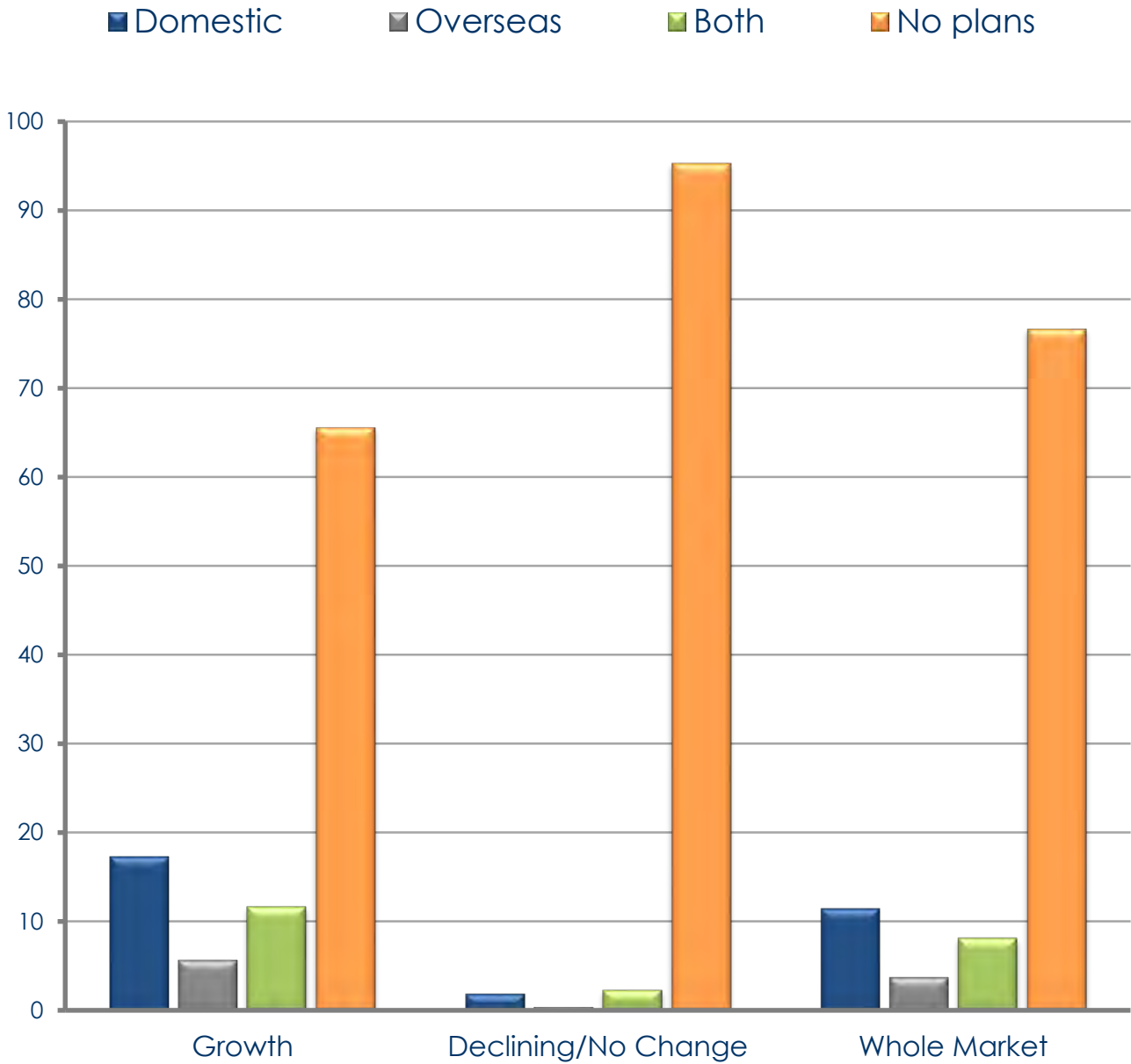
Geographical Expansion Intentions

% of Total SMEs

	Growth (N: 787)	Declining/No Change (N: 470)	Whole Market (N: 1257)
Domestic geographic expansion	17.3	1.9	11.5
Overseas geographic expansion	5.6	0.4	3.7
Both domestic and overseas expansion	11.6	2.3	8.1
No plans	65.6	95.3	76.7
TOTAL	100.0	100.0	100.0

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

FIGURE 4
Geographical Expansion Intentions
% of Total SMEs



Are you planning to acquire another business or merge with another business in the next six months?

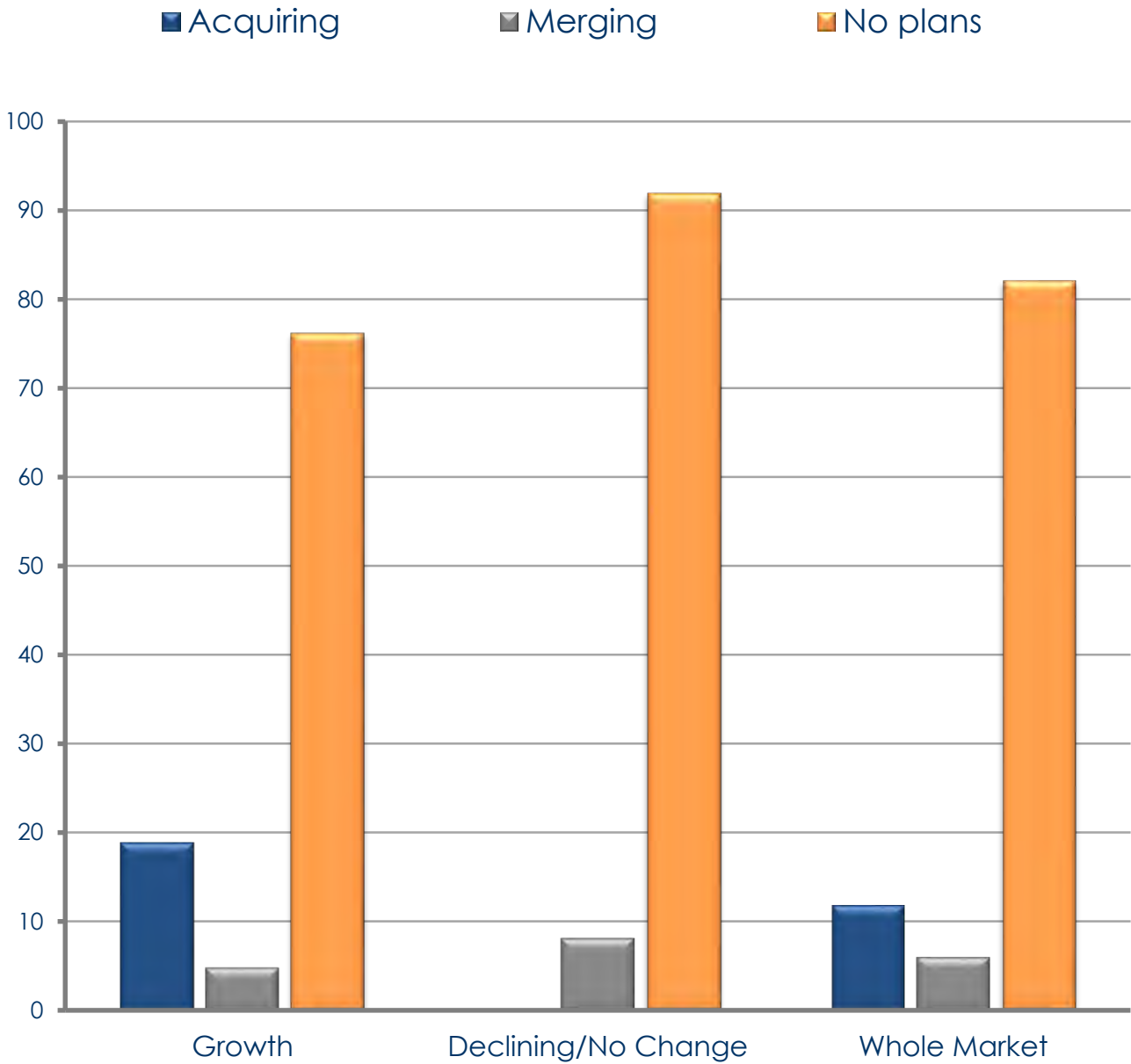
- One in ten businesses plan to acquire another business in the next six months.
- 18.9 percent – or just under one in two - of those businesses forecasting growth say they plan to acquire another business.
- A higher percentage of those businesses forecasting declining/no change in growth plan mergers than those forecasting growth. 8.1 percent of businesses which are in the declining/no change group plan mergers, while only 4.8 percent of those in the growth category say they plan a merger.
- None of the businesses in the declining/no change group plans an acquisition.

TABLE 5
Business Acquisition / Merge Intentions
% of Total SMEs

	Growth (N: 787)	Declining/No Change (N: 470)	Whole Market (N: 1257)
Acquiring another business	18.9	—	11.9
Merging with another business	4.8	8.1	6.0
No plans	76.2	91.9	82.1
TOTAL	100.0	100.0	100.0

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

FIGURE 5
Business Acquisition / Merge Intentions
 % of Total SMEs



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

- A dominant eight out of ten businesses which plan to invest in their operations in the next six months plan to use their own funds. Of those businesses in the declining/no change group which have plans to invest, a lower 55.6 percent will use their own funds.
- Businesses in the growth category are more likely to borrow from their relationship bank, and from another bank or specialist lender than those in the declining/no change group.
- One out of ten of all businesses planning to invest will borrow from another bank or a specialist non-bank lender.

TABLE 6

Funding Plans for Business Investment

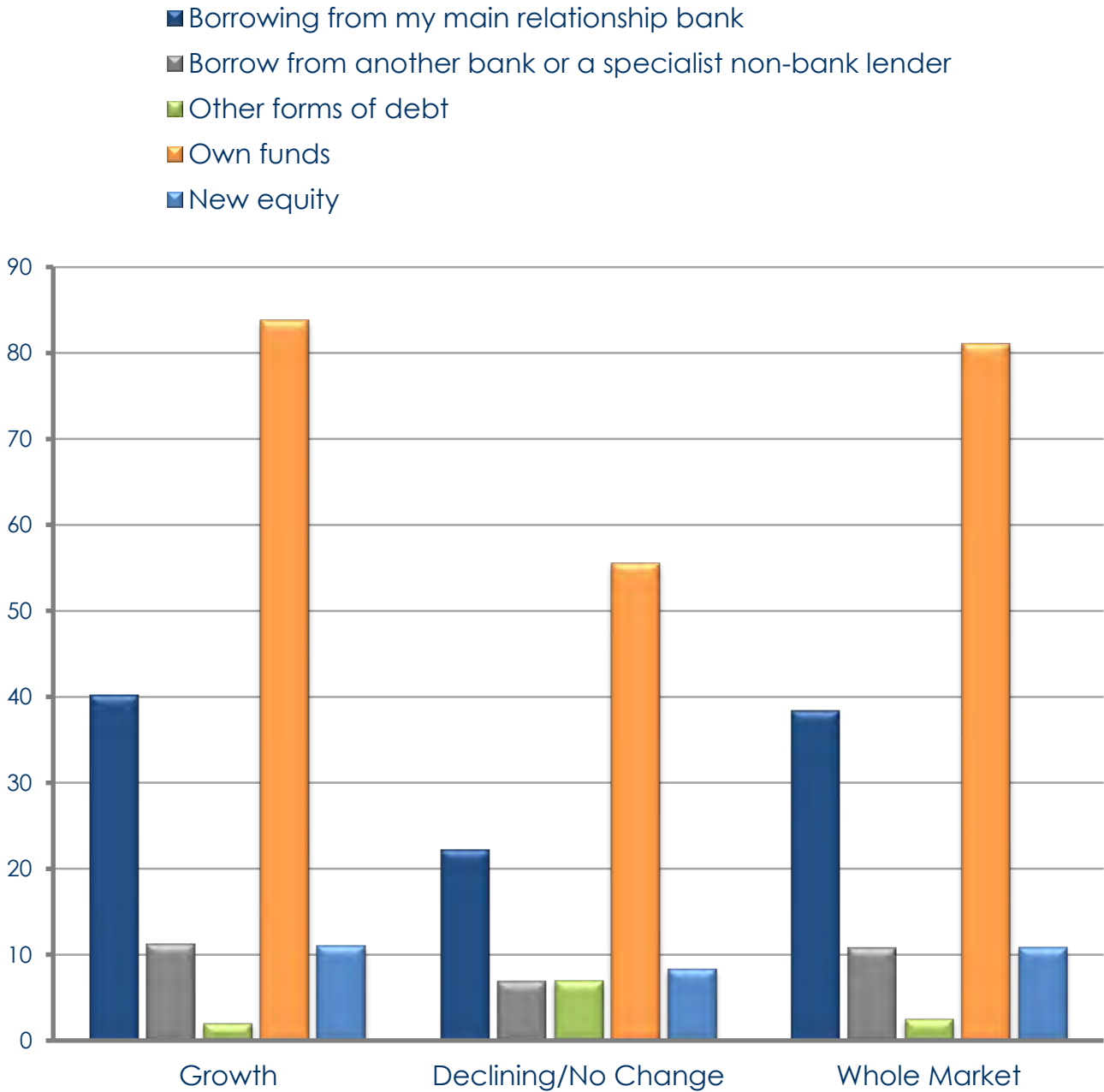
% of Total SMEs

	Growth (N: 662)	Declining/No Change (N: 72)	Whole Market (N: 734)
Borrowing from my main relationship bank	40.2	22.2	38.4
Borrow from another bank or a specialist non-bank lender	11.2	6.9	10.8
Other forms of debt	2.0	6.9	2.5
Own funds	83.8	55.6	81.1
New equity	11.0	8.3	10.8

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

Note: sums to over 100 percent due to multiple responding allowed

FIGURE 6
Funding Plans for Business Investment
 % of Total SMEs



What are the key drivers behind your business growth?

- Of SME businesses forecasting growth, the main driver for their growth is their people. More than three out of ten cited great people/staff/strong team as a key growth driver.
- Anchor/core customers is the second biggest driver, nominated by 31.0 percent.
- 17.8 percent – or almost two in ten – say their growth is due to luck and good fortune or timing, while another 28.2 percent – almost three in ten – say they “just followed their nose” and don’t know why they are growing.

TABLE 7

Drivers of Business Growth

% of Growth SMEs

	(N: 787)
Great people/staff/strong team	33.8
Anchor / core customers	31.0
Good industry networks	23.0
Continual change / innovation	19.1
Luck / good fortune / good timing	17.8
No legacies / history	14.4
Successfully integrating technology with the business	12.3
Smart management	12.2
Smart marketing	11.2
Little / no direct competition	8.6
Tightly defined markets / segments	7.5
Availability of equity / positive backers	6.6
Effective mentors / advisors	5.2
Don't know / just followed our nose	28.2
Other	0.8

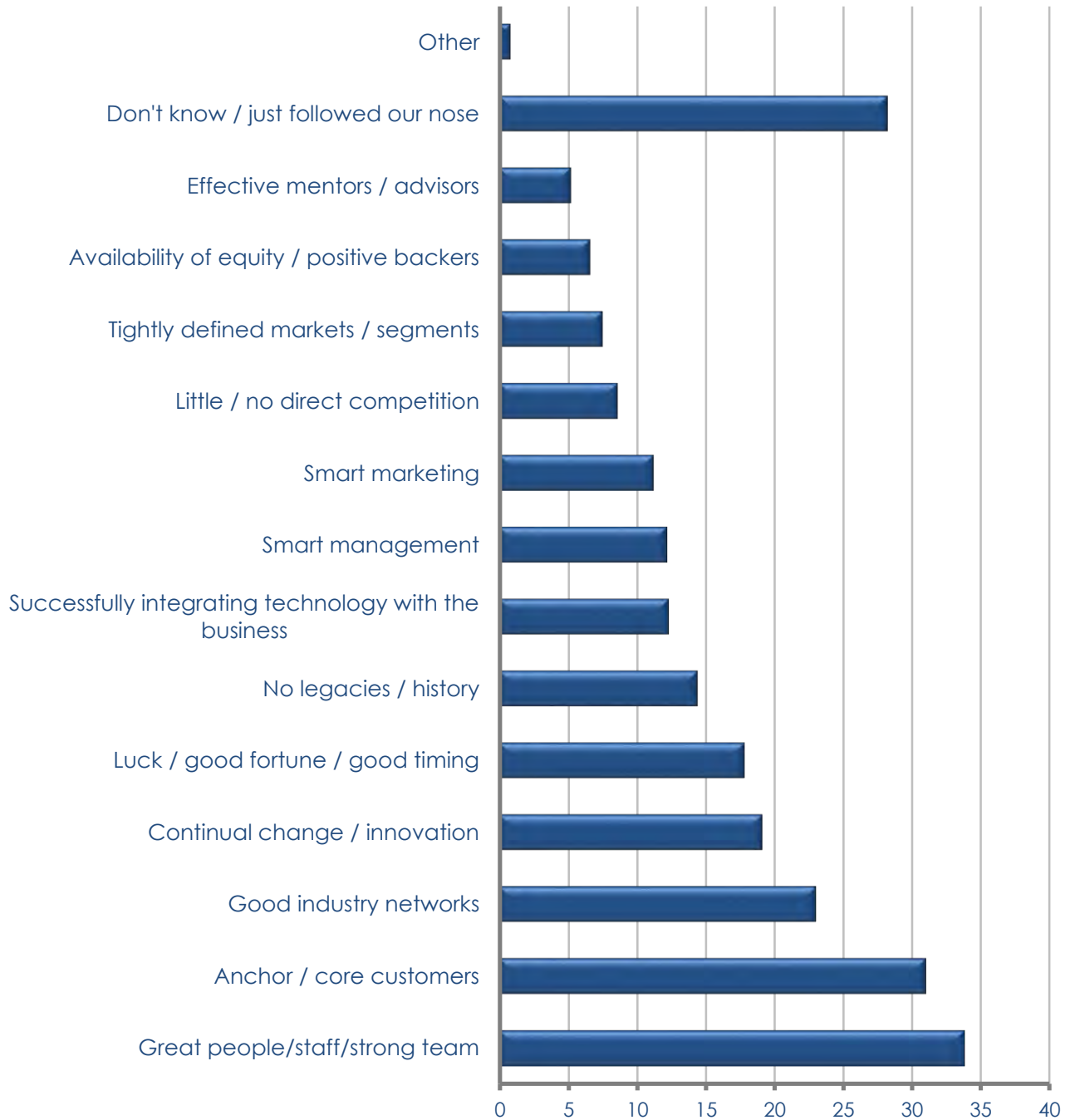
Note: sums to over 100 percent due to multiple responding allowed

Note: the question was confined to SMEs self-reporting as growth businesses

FIGURE 7

Drivers of Business Growth

% of Growth SMEs



What do you see as the key barriers to business growth?

- SME businesses continue to have issues with credit. Six out of ten say conditions of credit are a barrier to growth, while five out of ten cite the availability of credit. 26.0 percent also nominate the lack of friendly private equity funding as a barrier.
- Government related barriers also figure prominently. Six out of ten businesses say high taxes restrict their growth, while just under four out of ten cite "red tape/regulatory change/imposts." Another 28.1 percent blame Government policies for being business unfriendly.
- The cost of credit is not a major factor. Only 8.3 percent say this is a barrier to growth.

TABLE 8

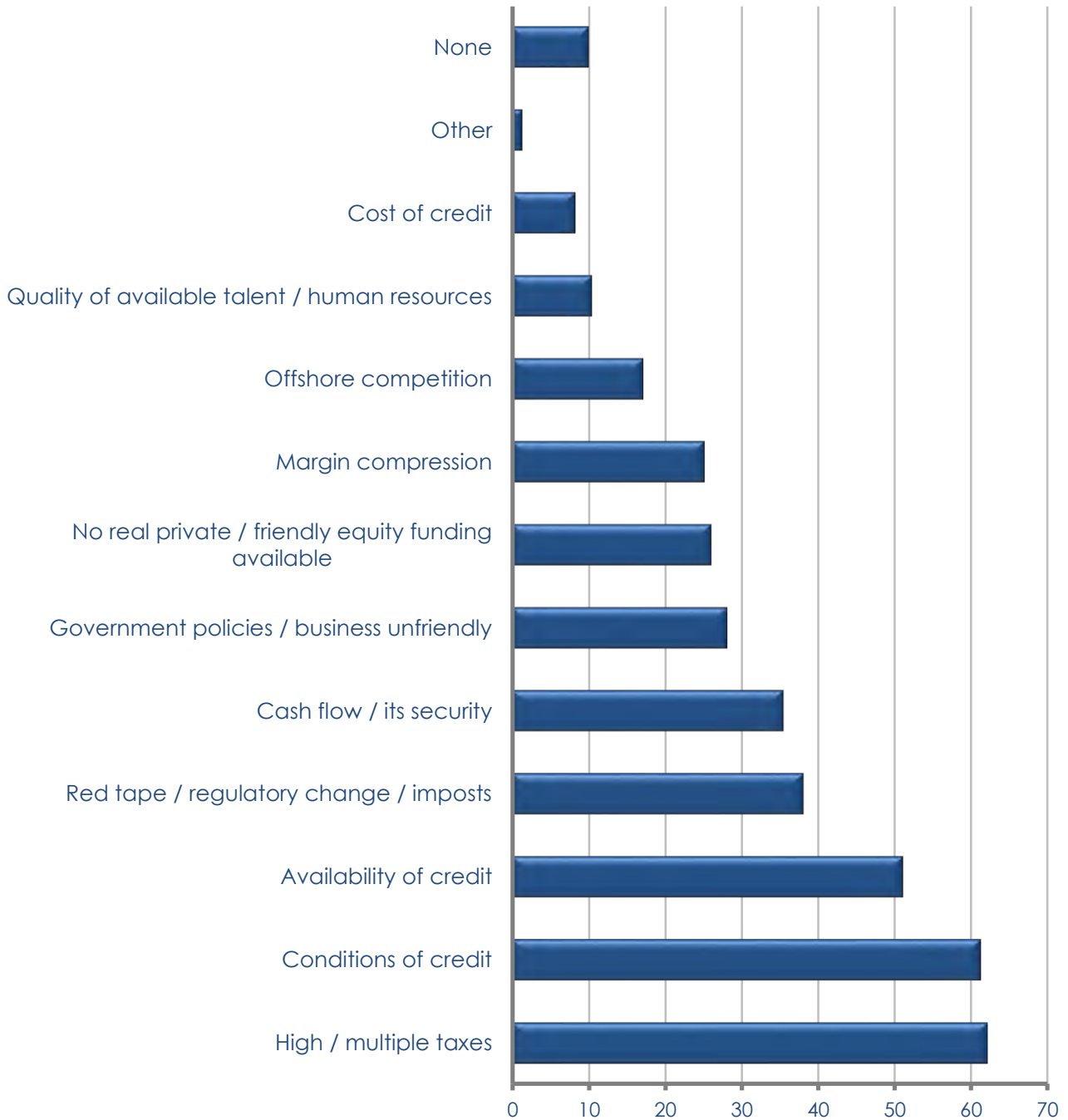
Barriers to Business Growth

% of Total SMEs

	Growth (N: 787)	Declining/No Change (N: 470)	Whole Market (N: 1257)
High / multiple taxes	52.6	77.9	62.1
Conditions of credit	51.3	77.7	61.2
Availability of credit	41.4	67.0	51.0
Red tape / regulatory change / imposts	49.3	19.1	38.0
Cash flow / its security	46.9	16.2	35.4
Government policies / business unfriendly	26.4	30.9	28.1
No real private / friendly equity funding available	20.2	35.7	26.0
Margin compression	16.0	40.4	25.1
Offshore competition	10.4	28.3	17.1
Quality of available talent / human resources	14.1	4.3	10.4
Cost of credit	9.0	7.0	8.3
Other	1.4	1.3	1.4
None	13.2	4.7	10.0

Note: sums to over 100 percent due to multiple responding allowed

FIGURE 8
Barriers to Business Growth – Whole Market
 % of Total SMEs



Special Question Results

Scottish Pacific SME Growth Index

September 2014

Does your bank require you to provide personal assets for collateral for your business debt, such as your family home?

- More than six out of ten businesses say they are required to provide personal assets as collateral for business debts. The figure is much higher – 77.0 percent – among those businesses forecasting growth.
- Inversely, a higher percentage of those in the declining/no change group say they do not have to provide such collateral. 57.9 percent – almost six out of ten – from this group respond in the negative against 23.0 percent of those forecasting growth.

TABLE 9

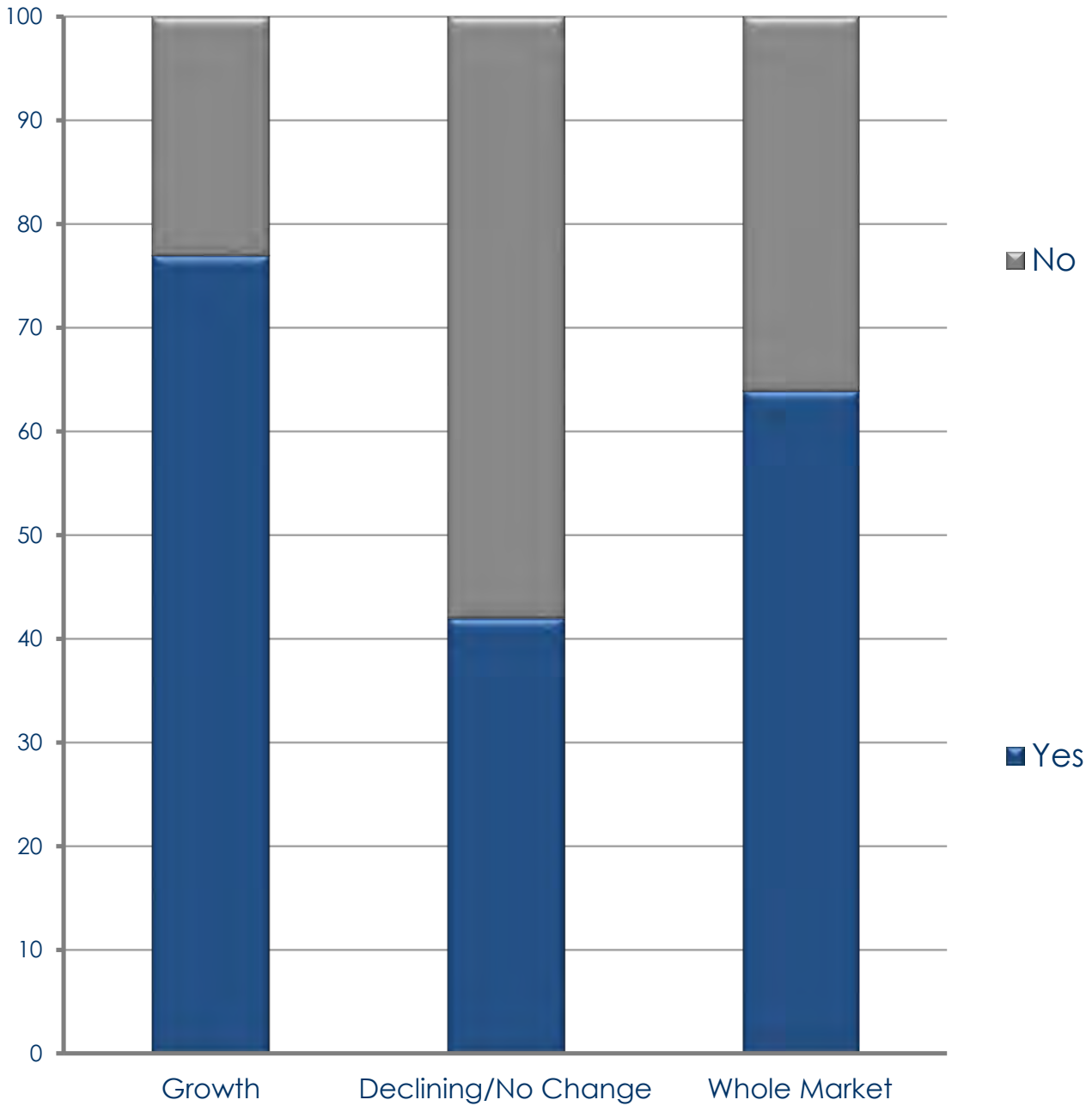
Requirement to use Personal Assets as Collateral

% of Total SMEs

	Growth (N: 787)	Declining/No Change (N: 470)	Whole Market (N: 1257)
Yes	77.0	42.1	64.0
No	23.0	57.9	36.0
TOTAL	100.0	100.0	100.0

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

FIGURE 9
Requirement to use Personal Assets as Collateral
 % of Total SMEs



Are you planning to sell your business in the next six months?

- The percentage planning to sell their business is significantly higher among the declining/no change group. 26.0 percent – or one in four – of these businesses have plans to sell, against only 8.0 percent of those in the group forecasting growth.
- Nine out of ten businesses which are forecasting growth have no plans to sell.

TABLE 10

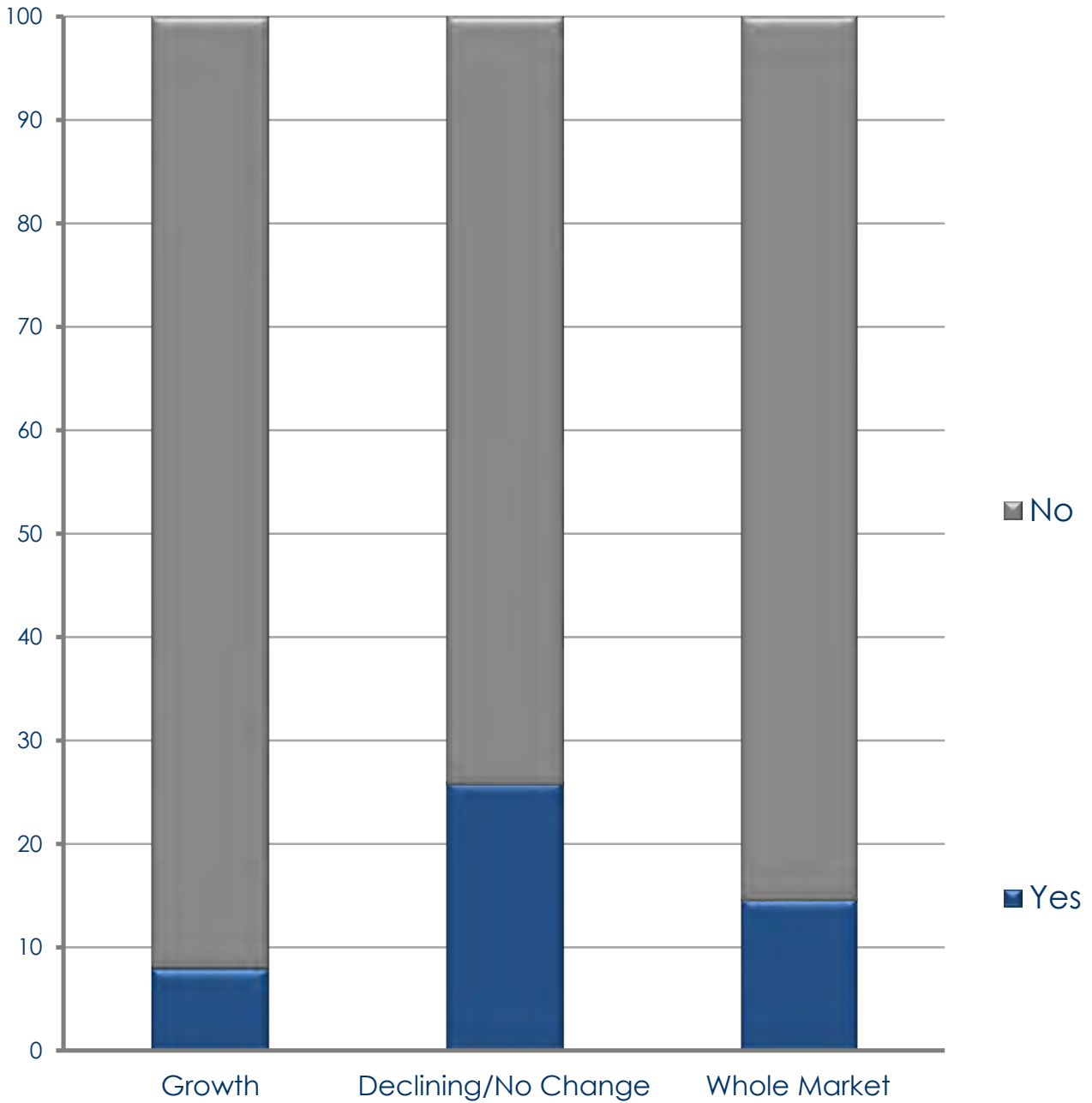
Intentions of Selling Business in Next Six Months

% of Total SMEs

	Growth (N: 787)	Declining/No Change (N: 470)	Whole Market (N: 1257)
Yes	8.0	26.0	14.7
No	92.0	74.0	85.3
TOTAL	100.0	100.0	100.0

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

FIGURE 10
Intentions of Selling Business in Next Six Months
 % of Total SMEs



If so, what is the reason for selling?

- Retirement plans are much more prevalent as a reason for selling among those businesses in the declining/no change group. 45.1 percent of this group – almost one in two – cite retirement as their reason to sell. Another 26.2 percent – or one in four – nominate a family succession plan.
- Of those businesses in the growth category, retirement is a driver for only one in five sales.
- Of those businesses in the growth category, seven out of ten say the reason for the sale is an “offer too good to refuse.” Only 3.8 percent of businesses in the declining/no change category cite this as a reason.

TABLE 11

Reasons for Selling Business in Next Six Months

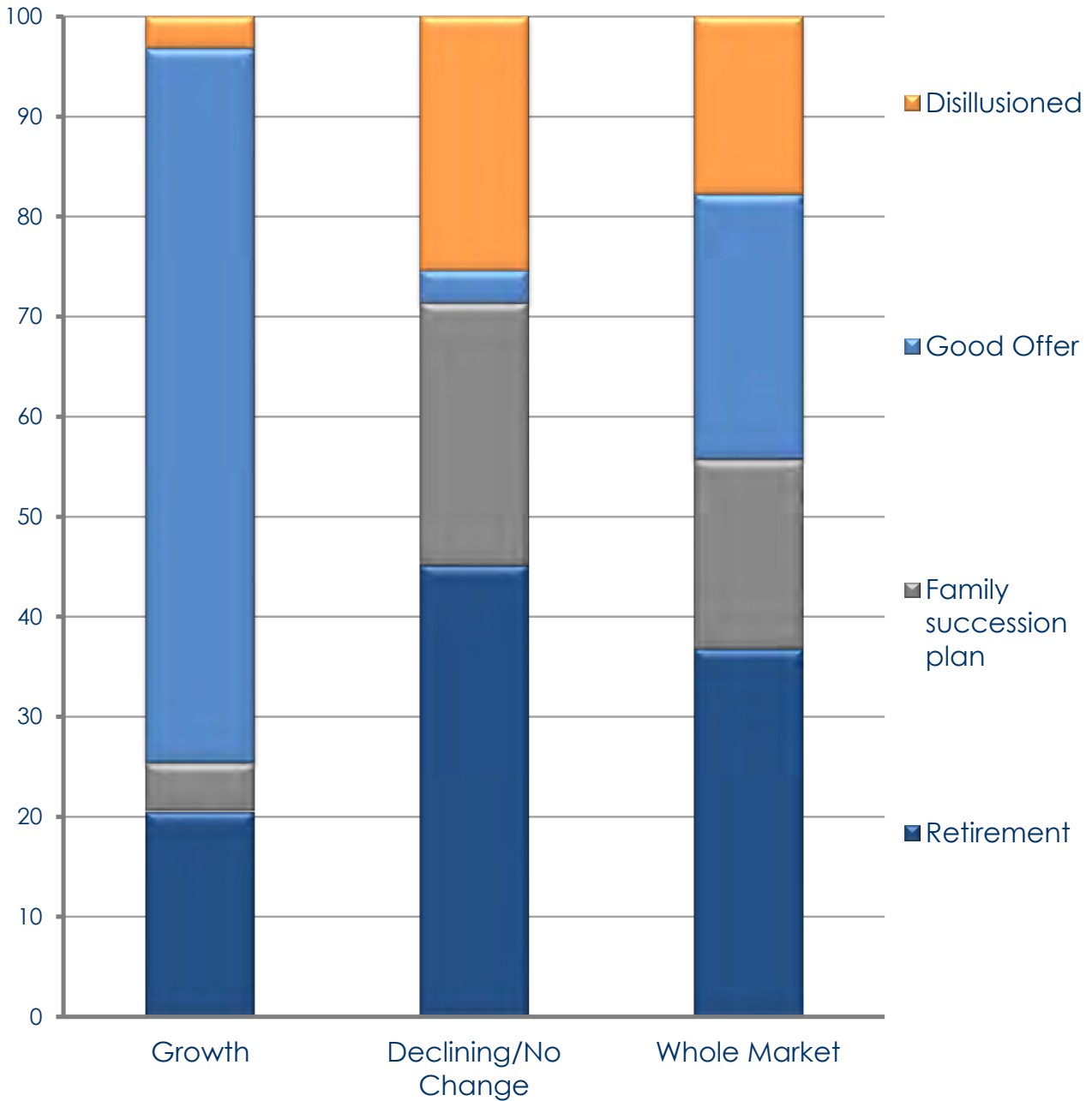
% of Total SMEs

	Growth (N: 63)	Declining/No Change (N: 122)	Whole Market (N: 185)
Retirement	20.6	45.1	36.8
Family succession plan	4.8	26.2	18.9
Offer too good to refuse	71.4	3.3	26.5
Disillusioned/frustrated/lost heart	3.2	25.4	17.8
TOTAL	100.0	100.0	100.0

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

Note: a further 44 "Declining / No Change" SMEs reported plans to close their businesses in the next six months

FIGURE 11
Intentions of Selling Business in Next Six Months
 % of Total SMEs



Appendix I

Interviewee Questionnaire

Scottish Pacific SME Growth Index

September 2014



Scottish Pacific SME Growth Index

(A\$5 – 20 million turnover accounts)

Interview Questionnaire

Organisation.....

Mailing Address

.....

Phone Fax.....

Interviewee.....

Title

Email

Website

Principal Industry Sector (ANZSIC).....

Current Annual Turnover.....

Number of Full Time Staff

Year Business Established.....

Primary Working Capital Provider

Length of Relationship (years)

Secondary Working Capital Provider.....

Core Questions

- 1 Please forecast the percentage change in your business revenues – either negative or positive - over the next six months:

.....

- 2 Which of these descriptions best describes the phase your business is currently in:

- Start-up
- Growth
- Stable
- Consolidation
- Contracting

- 3 Are you planning to introduce any new products or services in the next six months?

- New Products
- New Services
- New Products and Services
- No plans

- 4 Are you planning to expand your business geographically in the next six months, either domestically or overseas?

- Domestic geographic business expansion
- Overseas geographic business expansion
- Overseas and domestic geographic expansion
- No plans



5 Are you planning to acquire another business or merge with another business in the next six months?

- Acquiring another business
- Merging with another business
- No plans

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

- Borrowing from my main relationship bank
- Borrow from another bank or a specialist non-bank lender
- Other forms of debt
- Own funds
- New equity

7 What are the key drivers behind your business growth?

.....

8 What do you see as the key barriers to business growth?

.....

Special Questions Round One

- 9 Does your bank require you to provide personal assets as collateral for your business debt, such as your family home?
- Personal assets held as collateral against business debt (e.g. family home)
 - No personal assets held as collateral against business debt
- 10 Are you planning to sell your business in the next six months?
- Yes
 - No plans to sell business in the next six months
- 11 If so, what is your reason for selling?
- Retirement
 - Family succession plan
 - Offer too good refuse
 - Disillusioned/frustrated/lost heart
 - Other

Thank you for your participation and valuable input to this ongoing research program. We look forward to further involvement as this research program continues.



Scottish Pacific Debtor Finance Pty Ltd provides working capital solutions to SMEs with annual turnover of almost \$5 billion, offering the broadest range of trade and debtor finance solutions in Australasia. Established in 1988, Scottish Pacific has full operations centres in Sydney, Melbourne, Perth, Brisbane, Auckland and China. Scottish Pacific was awarded the 2014 Best Cash Flow Lender by broker publication The Adviser, as voted by brokers, in their inaugural Non-Bank Lending Awards.

About the Scottish Pacific SME Growth Index

The biannual Index, initiated in September 2014, will help benchmark SME growth in Australia and highlight issues of concern to the SME business community. For the inaugural Index, East & Partners interviewed 1,257 SME businesses with annual revenues of between A\$1-20 million in late July/early August 2014. 82 percent of responders were SME business owners, CEOs or CFOs. The next Index will be released in March 2015.

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